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# California

Forms & Instructions

## 100S

### 2005

S Corporation Tax Booklet

Members of the Franchise Tax Board

Steve Westly, Chair

John Chiang, Member

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**This Booklet Contains:**

**Form 100S**, California S Corporation  
Franchise or Income Tax Return

**Schedule B (100S)**, S Corporation  
Depreciation and Amortization

**Schedule C (100S)**, S Corporation Tax  
Credits

**Schedule D (100S)**, S Corporation Capital  
Gains and Losses and Built-in Gains

**Schedule H (100S)**, S Corporation Dividend  
Income Deduction

**Schedule K-1 (100S)**, Shareholder's Share  
of Income, Deductions, Credits, etc.

**Schedule QS**, Qualified Subchapter S  
Subsidiary (QSub) Information Worksheet

**FTB 3539**, Automatic Extension for Corps  
and Exempt Orgs

**FTB 3805Q**, Net Operating Loss (NOL)  
Computation and NOL and Disaster Loss  
Limitations —Corporations



STATE OF CALIFORNIA  
**FRANCHISE TAX BOARD**

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# Instructions for Form 100S

## California S Corporation Franchise or Income Tax Return

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and to the California Revenue and Taxation Code (R&TC).

### What's New/Tax Law Changes

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, please visit our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **conformity**.

Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

**Refund or Amount Due** – For the 2005 tax year, Form 100S, side 1, includes new refund or amount due boxes. If the corporation has an entry on line 40, check the **refund box**. If line 40 and line 42 are zeros, check the **refund box**. If the corporation has an entry on line 42, check the **amount due box**. Only one box should be checked.

**Katrina Tax Relief Act** – As of the date of publishing, California has not conformed to any of the federal law changes made under the Katrina Emergency Tax Relief Act of 2005. However, California will follow federal policy by allowing special tax relief for California taxpayers affected by Hurricane Katrina in the federally declared disaster areas for the items listed below:

- Extended due dates for filing tax returns and paying taxes;
- Donations of approved employee leave time program;
- Qualified distributions from qualified pension plans.

For more information related to Hurricane Katrina, visit the Franchise Tax Board (FTB) Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and see Disaster loss under the Filing tab.

**California law changes effective for taxable years beginning on or after January 1, 2005 or as indicated:**

**Environmental Tax Credit** – For taxable years beginning on or after January 1, 2005, California allows an environmental tax credit in an amount equal to five cents (\$.05) for each gallon of ultra low sulfur diesel fuel produced during the taxable year by a small refiner at any facility located in California. The aggregate credit cannot exceed 25 percent of the

qualified capital costs incurred by the small refiner with respect to that facility, reduced by the aggregate credits determined for all prior taxable years with respect to that facility. See form FTB 3511, Environmental Tax Credit, for more information.

**Amnesty Program** – Recently enacted law provides clarification and relief for taxpayers who participated in the 2005 California state Amnesty program. For more information visit our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for the Amnesty link.

**Natural Heritage Preservation Credit** – The funding for the Natural Heritage Preservation Credit is available beginning January 1, 2005 until June 30, 2008. The funding was not available in 2004. For more information, get form FTB 3503, Natural Heritage Preservation Credit; go to the Wildlife Conservation Board (WCB) Website at [www.wcb.ca.gov](http://www.wcb.ca.gov); or contact WCB at (916) 445-8448.

**Charitable Contributions for 2004 Tsunami Disaster** – California conforms to the federal law which allows a 2004 charitable contribution deduction for cash contributions made during January 2005 toward the relief of the Tsunami Disaster victims in the Indian Ocean. Corporations may claim the deduction in either the 2004 or 2005 tax year.

**Last-in, First-out (LIFO) Recapture** – For taxable years beginning on or after **January 1, 2006**, California conformed to federal tax law in excluding the annual payments of the LIFO recapture tax from the computation of "estimated tax." Therefore, LIFO recapture amounts are not included in the computation of an estimated tax underpayment penalty.

**Estimated Tax Penalty** – For taxable years beginning on or after January 1, 2005, the underpayment of estimated tax penalty shall not apply to the extent the underpayment of an installment was created or increased by any provision of law that is chaptered during and operative for the taxable year of the underpayment. To request a waiver of underpayment of estimated tax penalty, get form FTB 5806, Underpayment of Estimated Tax by Corporations.

#### Federal/State Conformity

Recently enacted legislation changes California's specified date of conformity to federal income tax laws from January 1, 2001 to January 1, 2005. This date change, in general, conforms to numerous changes made in the federal income tax law during that four-year period. For the most current information regarding specific provisions of conformity and non-conformity as it relates to this date change, please visit our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for conformity.

- California conforms to the modification to the qualification requirements of S corporations and their shareholders.
- California does not allow an exclusion from gross income of certain federal subsidies for prescription drug plans under IRC Section 139A.

### Important Information

- S corporations that made purchases from out-of-state or Internet sellers and owe California use tax may report and pay the tax on their S Corporation Franchise or Income Tax Returns. See General Information EE for more information.
- If the corporation was involved in a potentially abusive tax shelter, then the corporation may have a disclosure, registration, and/or a list maintenance requirement. Attach the IRS Form 8886 to the back of the California return along with other supporting schedules. If this is the first time the reportable transaction is disclosed on the return, then send a duplicate copy of the Form 8886 to the address below. The FTB may impose several new penalties if the corporation fails to file IRS Forms 8886, 8264, or any other required information.

Tax Shelter Filing  
Franchise Tax Board  
PO Box 1673  
Sacramento CA 95812-1673

For more information, see Registration and Reporting Requirements under Abusive Tax Shelters on our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov).

- For taxable years beginning on or after January 1, 2004, California has reinstated the Net Operating Loss (NOL) carryover deductions. The carryover periods for an NOL incurred in years:
  - beginning before January 1, 2002, have been extended for two years.
  - beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.

For taxable years beginning on or after January 1, 2004, 100% of the NOL may be carried forward. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations - Corporations.

- R&TC Section 24410 was repealed and re-enacted to allow a "Dividends Received Deduction" of qualified dividends received from an insurer subsidiary. The deduction is allowed whether or not the insurer is engaged in business in California, if at the time of each payment at least 80% of each class of stock of the insurer was owned by the corporation receiving the dividend. For taxable years beginning on or after January 1, 2004, and before January 1, 2008, an 80% deduction is allowed for qualified dividends. For taxable years beginning on or after January 1, 2008, the deduction is increased to 85%. A portion of the dividends may not qualify if the insurer subsidiary paying the dividend is overcapitalized for the purpose of the dividend received deduction. See the Schedule H (100S) instructions for additional information.

- For taxable years beginning on or after January 1, 2003, the provisions for making a water's-edge election have changed substantially. The new procedures replace the contract with a statutory election, which continues in effect for a minimum of seven years (84 months); see R&TC Section 25113.

To make a water's-edge election under the new rules, a corporation must:

- Compute the corporation's income on a water's-edge basis,
- Use Form 100S, California S Corporation Franchise or Income Tax Return, and
- Attach Form 100-WE, Water's-Edge Election, to the timely filed original return for the year of the election.

Corporations that have a valid election for taxable years beginning before January 1, 2003 will continue to file on a water's-edge basis and will be deemed to have elected under the new rules (R&TC Section 25113) for taxable years beginning on or after January 1, 2003. However, the election start date under the new rules (R&TC Section 25113), will continue to be the start date as originally elected under the old rules (R&TC Section 25111). For more information, get the 2005 Form 100W Booklet that contains the California Water's-Edge Forms and Instructions.

- For taxable years beginning on or after January 1, 2003, corporate shareholders of a Regulated Investment Company (RIC) are explicitly denied a dividend deduction for earnings from the RIC that are not from stock dividends.

R&TC Sections 17024.5 and 23051.5 have been amended to clarify that, unless otherwise expressly allowed, federal elections made before a taxpayer becomes a California taxpayer are binding for California tax purposes.

- For taxable years beginning on or after 01/01/2003, California will follow the revised federal instructions (with some exceptions) for reporting the sale, exchange or disposition of an asset for which an IRC Section 179 expense deduction was claimed in prior years by a partnership, limited liability company, or S corporation.

S corporations should follow the instructions in federal Form 4797 with the exception that the amount of gain on property subject to the IRC Section 179 recapture must be included in the S corporation's taxable income for California purposes. See General Information FF and Specific Line Instructions for line 4, for more information.

Shareholders should follow federal reporting requirements as detailed in federal Form 1120S, U.S. Income Tax Return for an S Corporation and federal Form 4797, Sale of Business Property instructions.

- A shareholder's pro-rata share of income from an S corporation is treated the same as a partner's distributive share of income from a partnership. The income is treated as if it

was realized directly from the source. Income from California sources is subject to California tax law. *Valentino et. al. v. Franchise Tax Board* ( March 23, 2001) 87 Cal. App. 4th 1284.

- In *Farmer Bros. Co. v. Franchise Tax Board* (2003) 108 Cal App 4th, 134 Cal Rptr. 2nd 390, the California Court of Appeal found that the R&TC Section 24402 deductible dividend provision discriminated against interstate commerce in violation of the Commerce Clause of the United States Constitution. R&TC Section 24402 provided for a deduction to the extent that the dividend payer was taxable in California. A statute that is held to be unconstitutional is invalid and unenforceable. Therefore, the deduction is not available.
- For taxable years beginning on or after January 1, 2002, California no longer allows a federal S corporation to elect to be a California C corporation. Therefore, for the taxable year beginning in 2002, and thereafter, any corporation with a valid federal S corporation election is considered an S corporation for California purposes. The effective date of the election is the first day of the corporation's taxable year beginning in 2002.

Corporations that elect to be an S corporation for federal purposes on or after January 1, 2002, and have a California filing requirement are deemed to make the California S election on the same date as the federal election.

**Built-in Gains Tax** – For taxable years beginning on or after January 1, 2002, when determining the built-in gains tax, C corporations that were required to convert to S corporations for California purposes are deemed to have elected S corporation status on the effective date of their federal election regardless of the effective date for California purposes.

- For taxable years beginning on or after January 1, 2002, the NOL carryover computation for the California taxable income of a nonresident or part-year resident is no longer limited by the amount of net operating loss from all sources. Only your California sourced income and losses are considered in determining a California NOL. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency, and form FTB 3805V, Net Operating Loss (NOL) Computation and NOL Disaster Loss Limitations – Individuals, Estates, and Trusts.
- R&TC Section 18662 requires buyers to withhold income taxes when purchasing California real property from corporate sellers with no permanent place of business in California immediately after the transfer. For more information, get FTB Pub. 1016.

Sellers of California real estate must attach copy B of Form 593-B, Real Estate Withholding Tax Statement, to their tax return as proof of withholding.

If the corporation needs to verify withholding payments, the corporation may call the

Withholding Services and Compliance Section at (888) 792-4900 (toll-free) or (916) 845-4900.

#### California law conforms to federal law for the following provisions:

- Disallowing the deduction for club membership fees and employee remuneration in excess of \$1 million.
- Disallowing the deduction for lobbying expenses.
- Tax-exempt organizations may be shareholders in an S corporation.
- Family farm corporations with income over \$25 million may defer tax on income that was a result of changes in accounting methods required of these corporations. For calendar year taxpayers, the suspense account for these deferrals must be recaptured starting with taxable years beginning on or after January 1, 1998. For fiscal year taxpayers, the suspense account must be recaptured starting in taxable years beginning after June 8, 1997, if the fiscal year taxpayer's taxable year ends on or after December 31, 1997.
- For purposes of inventory accounting, an adjustment for shrinkage, based on an estimate, may be made. Taxpayers can voluntarily change their method of accounting if the method currently being used does not utilize estimates of inventory shrinkage and the taxpayer now wishes to use that method.
- Required recognition of gain on certain appreciated financial positions in personal property.
- Allows securities traders and commodities traders and dealers to elect to use the mark-to-market accounting similar to what is currently required for securities dealers. Commodities would include only commodities of a kind that are dealt with in the organized commodities exchange. An election to use the mark-to-market method for federal purposes is considered an election for state purposes and a separate election is not allowed.
- Limitation on exception for investment companies under IRC Section 351.
- If an Employee Stock Ownership Plan (ESOP) is an S corporation shareholder, items of income or loss of the S corporation that flow through to the ESOP are not treated as unrelated business taxable income (UBTI). Previously, such items were treated as UBTI.
- S corporations that establish and maintain ESOPs are not required to give participants the right to demand distributions in the form of employer securities, if the participants have the right to receive such distributions in cash.
- An IRC Section 338 election, relating to stock purchases treated as asset acquisitions, is treated as an election for state purposes. A separate election for state purposes is not allowed.
- Expansion of deduction for certain interest and premiums paid for company-owned life insurance.
- Modification of holding period applicable to dividends received deduction.



- Repeal of special installment sales rule for manufacturers of tangible personal property.
- Required registration for abusive tax shelters.
- Payment of estimated tax for closely held real estate investment trusts (REIT) and income and services provided by REIT subsidiaries.

**California law does not conform to federal law for the following provisions:**

- Certain environmental remediation expenditures that would otherwise be chargeable to capital accounts may be expensed and taken as a deduction in the year the expense was paid or incurred.
- Deduction for corporate donation of scientific property and computer technology.
- The additional 30% or 50% first-year depreciation allowance for qualified property.
- The first-year depreciation deduction allowed for luxury autos or certain passenger automobiles.
- Decreased capital gains tax rate.
- Certain special tax rules relating to ESOPs will not apply with respect to S corporation stock held by the ESOP. These include rules relating to certain contributions to ESOPs, the deduction for dividends paid on employer securities, and the rollover of gain on the sale of stock to an ESOP. See IRC Sections 404(a)(9) and 404(k) for more information.
- Accelerated depreciation for property on Indian reservations.
- The treatment of Subpart F and IRC Section 936 income.
- Temporary suspension of income limitations on percentage depletion for production from marginal wells. The percentage depletion deduction, which may not exceed 65% of the taxpayer's taxable income, is restricted to 100% of the net income derived from the oil or gas well property.

**Note:** The above lists are not intended to be all-inclusive of the federal and state conformities and differences. For more information, please refer to the California R&TC.

**Records Maintenance Requirements**

Any taxpayer filing on a water's-edge or worldwide basis is required to keep and maintain records and make the following available upon request:

- Any records needed to determine the correct treatment of items reported on the worldwide or water's-edge combined report for purposes of determining the income attributable to California;
- Any records needed to determine the treatment of items as nonbusiness or business income;
- Any records needed to determine the apportionment factor; and
- Documents and information needed to determine the attribution of income to the U.S. or foreign jurisdictions under IRC Subpart F, IRC Section 882, or other similar provisions of the IRC.

See R&TC Section 19141.6 and the related regulations for more information. A corporation may be required to authorize an agent,

through a Power of Attorney, to act on its behalf in response to requests for information or records pursuant to R&TC Section 19504.

**Note:** For information about the Power of Attorney, go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov).

The penalty for not maintaining the above required records is \$10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the Franchise Tax Board (FTB) notifies the S corporation of the failure, a penalty of \$10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be assessed. See General Information M, Penalties, for more information.

## General Information

Form 100S is used if a corporation has elected to be a small business corporation (S corporation).

All federal S corporations subject to California laws must file Form 100S and pay the greater of the minimum franchise tax or the 1.5% income or franchise tax. The tax rate for financial S corporations is 3.5%.

The taxable income of the S corporation is calculated two different ways for two different purposes. First, it is calculated in the same manner as for C corporations, with certain modifications, for purposes of computing the 1.5% income or franchise tax. Second, it is calculated using federal rules for the pass-through of income and deductions, etc. for purposes of pass-through to the shareholders.

**Note:** A corporation that makes a valid election to be treated as an S corporation is not allowed to be included in a combined report of a unitary group, except as provided by R&TC Section 23801(d)(1).

## A Franchise or Income Tax

### Corporation franchise tax

Entities subject to the corporation minimum franchise tax include all S corporations that are:

- Incorporated or organized in California;
- Qualified or registered to do business in California; or
- Doing business in California, whether or not incorporated, organized, qualified, or registered under California law.

The measured franchise tax is imposed on S corporations doing business in California and is measured by the income of the current taxable year for the privilege of doing business in that taxable year.

The term "doing business" means actively engaging in any transaction for the purpose of financial gain or profit.

The minimum franchise tax must be paid whether the S corporation is active, inactive, not doing business in California, or operates at a loss.

**Note:** An S corporation incorporated in California, but not doing business in this state,

is not subject to the measured franchise tax. In the case of an S corporation incorporated in California or qualified with the California Secretary of State (SOS) but not doing business in this state, careful attention should be given to the term "doing business." It is not necessary that the S corporation conducts business or engages in transactions within the state on a regular basis. Even an isolated transaction during the year may be enough to cause the S corporation to be "doing business."

Also, when an S corporation is either a general partner of a partnership or a member of an LLC that is "doing business" in California, the S corporation is also considered to be "doing business" in California.

### Corporation income tax

The corporation income tax is imposed on all S corporations that derive income from sources within California but are not doing business in California.

For purposes of the corporation income tax, the term "corporation" is not limited to incorporated entities, but also includes:

- Associations;
- Massachusetts or business trusts;
- Real estate investment trusts; and
- Other business entities classified as associations under Cal. Code Regs., tit. 18 sections 23038(b)-1 through 23038(b)-3.

Get FTB Pub. 1063, California Corporation Tax Law – A Guide for Corporations, for more information.

## B Tax Rate and Minimum Franchise Tax

### Tax rate

The tax rate for S corporations that are subject to either the franchise or the income tax is 1.5%. The tax rate for built-in gains, and excess net passive income is 8.84%.

Financial S corporations are required to use a rate of 2% above the S corporation rate. See R&TC Section 23186.

### Minimum franchise tax

All S corporations subject to the corporation franchise tax and any S corporation "qualified" to do business in California must file Form 100S and pay at least the minimum franchise tax as required by law. The minimum franchise tax is \$800 and must be paid whether the S corporation is active, inactive, operates at a loss, or files a return for a short period of less than 12 months.

**Note:** For corporations that incorporate or qualify through the California SOS to do business in California on or after January 1, 2000, the prepayment of the minimum franchise tax to the California SOS is no longer required. For the first taxable year, the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rate and will not be subject to minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year. This does not apply to qualified Subchapter S subsidiaries or corporations that are not qualified by the

California SOS, or reorganize solely to avoid payment of the minimum franchise tax.

There is no minimum franchise tax for:

- Corporations that derive income from sources within California but are subject only to income tax because they are not "doing business" in California, and are not incorporated or qualified under the laws of California. For more information regarding "doing business," get FTB Pub. 1050, Application and Interpretation of Public Law 86-272; FTB Pub. 1060, Guide for Corporations Starting Business in California; or FTB Pub 1063, California Corporation Tax Law – A Guide for Corporations;
- Credit unions;
- Exempt homeowners' associations;
- Exempt political organizations;
- Qualified non-profit farm cooperative associations;
- Exempt organizations;
- Corporations that are not incorporated under the laws of California; whose sole activities in California are engaging in convention and trade show activities for seven or fewer days during the income year; and do not derive more than \$10,000 of gross income reportable to California during the taxable year. These S corporations are not "doing business" in California. For more information, get FTB Pub. 1060, Guide for Corporations Starting Business in California or FTB Pub. 1063, California Corporation Tax Law – A Guide for Corporations; and
- Newly formed or qualified corporations filing an initial return for taxable years beginning on or after January 1, 2000.

#### Alternative minimum tax

S corporations are not subject to the alternative minimum tax.

## C Elections and Terminations

### Elections

Starting January 1, 2002, corporations that elect federal S corporation status and have a California filing requirement are deemed to have made a California S election effective on the same date as the federal S election.

### Terminations

Terminating the taxpayer's federal S election simultaneously terminates its California S election.

If the taxpayer terminates its S corporation status, short-period returns are required for the S corporation short year and the C corporation short year, if applicable.

## D Accounting Period and Method

The taxable year of the S corporation must not be different from the taxable year used for federal purposes, unless initiated or approved by the FTB (R&TC Section 24632).

A change in accounting method requires consent from the FTB. However, an S corporation that obtains federal approval to change its accounting method, or that is permitted or required by federal law to make a change in its accounting method without prior

approval, and does so, is deemed to have the FTB's approval if: (1) the S corporation files a timely Form 100S consistent with the change for the first year the change is effective for federal purposes; and (2) the change is consistent with California law. A copy of federal Form 3115, Application for Change in Accounting Method, and a copy of the federal consent to the change must be attached to Form 100S for the first year the change becomes effective. Get FTB Notice 2000-8 for more information. The FTB may modify requested changes if the adjustments would distort income for California purposes.

**Note:** California is not following the automatic consent procedure for a change of accounting method involving previously unclaimed allowable depreciation or amortization of Federal Revenue Procedure 96-31. Get FTB Notice 96-3 for more information.

## E When to File

File Form 100S by the 15th day of the 3rd month after the close of the taxable year unless the return is for a short-period as required under R&TC Section 24634. Generally, the due date of a short-period return is the same as the due date of the federal short-period return. See R&TC Section 18601(c) for the due date of the short-period return. Farmers' cooperative associations must file Form 100S by the 15th day of the 9th month after the close of the taxable year.

See General Information O, Dissolution/Withdrawal, and P, Ceasing Business, for information on final returns.

An S corporation that converts to another type of entity, such as a limited liability company or limited partnership, must file two California returns. The converted entity is required to file a short-period return for the taxable year ending on the day before the effective date of conversion. The new entity would then be subject to all of the filing requirements and tax obligations from the date of conversion.

## F Extension of Time to File

If an S corporation cannot file its California tax return by the 15th day of the 3rd month after the close of the taxable year, it may file on or before the 15th day of the 10th month without filing a written request for an extension. If the S corporation is suspended on the original due date, the automatic extension will not apply.

An automatic extension does not extend the time for payment. The full amount of tax must be paid by the original due date of Form 100S. If there is an unpaid tax liability on the original due date, complete form FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations, included in this booklet, and send it with the payment by the original due date of the Form 100S.

**Note:** If the corporation must pay its tax liability using Electronic Funds Transfer (EFT), all payments must be remitted by EFT to avoid penalties. Do not send form FTB 3539.

## G Electronic Funds Transfer (EFT)

Corporations or exempt organizations that meet certain requirements must remit all of their payments through EFT rather than by paper checks to avoid the 10% non-compliance EFT penalty. Corporations or exempt organizations that remit an estimated tax payment or extension payment in excess of \$20,000 or that have a total tax liability in excess of \$80,000 must remit all of their payments through EFT. The FTB will notify corporations or exempt organizations that are subject to this requirement. Those that do not meet these requirements and wish to participate on a voluntary basis may do so. If you are an EFT taxpayer, complete the form FTB 3539 worksheet for your records. **DO NOT SEND THE PAYMENT VOUCHER.** For more information, go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov), call (916) 845-4025, or get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide.

## H Where to File

If tax is due, and the corporation is not required to use EFT, make the check or money order payable to the Franchise Tax Board. Write the California corporation number and "2005 Form 100S" on the check or money order. Mail the return and payment to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0501

**Note:** All checks or money orders must be payable in US dollars and drawn against a US financial institution.

Mail all other returns, including those with payment by EFT to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0500

### Private Delivery Services

California law conforms to federal law regarding the use of certain designated private delivery services to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. See federal Form 1120S, U.S. Income Tax Return for an S Corporation, for a list of designated delivery services. If a private delivery service is used, address the return to:

FRANCHISE TAX BOARD  
SACRAMENTO CA 95827

**Caution:** Private delivery services cannot deliver items to PO boxes. If using one of these services to mail any item to the FTB, **DO NOT** use an FTB PO box.

### Private Mailbox (PMB) Number

If the S corporation leases a PMB from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

## I Net Income Computation

The computation of net income from trade and business activities generally follows the determination of taxable income as provided in

the IRC. However, there are differences that must be taken into account when completing Form 100S. There are two ways to complete Form 100S, the federal reconciliation method or the California computation method.

#### 1. Federal reconciliation method

- Attach a copy of federal Form 1120S, page 1, U.S. Income Tax Return for an S Corporation, and all pertinent supporting schedules, or transfer the information from federal Form 1120S, page 1, to Form 100S, Side 3, Schedule F and attach all pertinent supporting schedules;
- Enter the amount of federal ordinary income (loss) from trade or business activities before any NOL or special deductions on Form 100S, Side 1, line 1; and
- Enter the state adjustments (including any adjustments necessary to report items not included in ordinary trade or business income or loss) on line 2 through line 14, to arrive at net income after state adjustments, Side 1, line 15.

See the specific line instructions for more information.

#### 2. Schedule F – California computation method

If the S corporation has no federal filing requirement, or if the S corporation maintains separate records for state purposes, complete Form 100S, Side 3, Schedule F, to determine state ordinary income. If ordinary income is computed under California laws, generally no state adjustments are necessary. Transfer the amount from Schedule F, line 22, to Form 100S, Side 1, line 1. Complete Form 100S, Side 1, line 1 through line 14, only if applicable.

**Note:** Regardless of the net income computation method used, the S corporation must attach any form, schedule, or supporting document referred to on the return, schedules, or forms filed with the FTB.

#### Substitution of federal schedules

S corporations may not substitute federal schedules for California schedules.

## J Built-in Gains

When a C corporation elects to be an S corporation, certain items of gain or loss recognized in S corporation years are subject to the C corporation 8.84% tax rate instead of the S corporation 1.5% tax rate (financial S corporations add 2%).

For taxable years beginning on or after January 1, 2002, when determining the built-in gains tax, C corporations that were required to convert to S corporations as a result of the enactment of Chapter 35 of the Statutes of 2002, and as amended by Chapter 807 of the Statutes of 2002, for California purposes are deemed to have elected S corporation status on the effective date of their federal election regardless of the effective date for state purposes.

## Built-in gains under current IRC Section 1374

For those S corporations that made the initial federal S election after December 31, 1986, certain income items reported by the S corporation are taxed at 8.84% (or the financial C corporation tax rate). This provision applies for a period of ten years following the C corporation's election to become an S corporation. The amount of built-in gain that is taxed at 8.84% (or the financial C corporation tax rate) is the excess of recognized built-in gains over recognized built-in losses, limited by taxable income as determined under IRC Section 1374(d)(2)(A). The following items are treated as built-in gains subject to this tax:

- Accounts receivable of cash basis taxpayers from C corporation years;
- Long-term contract deferred income from C corporation years;
- Deferred income from installment sales made in C corporation years;
- Recapture of depreciation from C corporation years;
- Income from unreplaced LIFO inventory from C corporation years; and
- Any other income item that is attributable to C corporation years.

These are just a few of the examples. This list is not intended to be all inclusive.

## K Estimated Tax

California law has conformed to the federal expanded annualization periods for the computation of estimate payments.

For taxable years beginning on or after January 1, 1998, the applicable percentage for estimate basis is 100%.

Every S corporation must pay estimated tax using Form 100-ES, Corporation Estimated Tax.

Estimated tax is generally due and payable in four installments:

- The 1st payment is due on the 15th day of the 4th month of the taxable year (note that this payment may not be less than the minimum franchise tax, plus QSub annual tax, if applicable); and
- The 2nd, 3rd, and 4th installments are due and payable on the 15th day of the 6th, 9th, and 12th months, respectively, of the taxable year.

**Caution:** If no amount is due, DO NOT mail Form 100-ES.

Get the instructions for Form 100-ES for more information.

If the corporation must pay its tax liability using EFT, **ALL** estimate payments due **must** be remitted by EFT to avoid the EFT penalty.

**Note:** Last-in, First-out (LIFO) Recapture- For taxable years beginning on or after January 1, 2006, California conformed to federal tax law in excluding the annual payments of the LIFO recapture tax from the computation of "estimated tax." Therefore, LIFO recapture amounts are not included in the computation of an estimated tax underpayment penalty.

## L Commencing S Corporations

For taxable years beginning on or after January 1, 2000, the corporation is required to pay measured tax instead of minimum tax for the first taxable year if the corporation incorporated or registered through the California SOS. For more information, see General Information B, Tax Rate and Minimum Franchise Tax, or get FTB Pub. 1060, Guide for Corporations Starting Business in California.

## M Penalties

### Failure to file a timely return

Any corporation that fails to file Form 100S on or before the extended due date is assessed a delinquent filing penalty. The delinquent filing penalty is computed at 5% of the tax due, after allowing for timely payments, for every month that the return is late, up to a maximum of 25%. If the S corporation does not file its return by the extended due date, the automatic extension will not apply and the late filing penalty will be assessed from the original due date of the return.

See R&TC Section 19131 and 23772 for more information.

### Failure to pay total tax by the due date

Any S corporation that fails to pay the total tax shown on Form 100S by the original due date is assessed a penalty. The penalty is 5% of the unpaid tax, plus 0.5% for each month, or part of the month (not to exceed 40 months) the tax remains unpaid. This penalty may not exceed 25% of the unpaid tax.

See R&TC Section 19132 for more information.

**Note:** If an S corporation is subject to both the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date, a combination of the two penalties may be imposed, but the total will not exceed 25% of the unpaid tax.

### Underpayment of estimated tax

Any S corporation that fails to pay, pays late, or underpays an installment of estimated tax is assessed a penalty. The penalty is a percentage of the underpayment for the underpayment period. Get form FTB 5806, Underpayment of Estimated Tax by Corporations, to determine both the amount of underpayment and the amount of penalty.

See R&TC Sections 19142, 19144, 19145, 19147, 19148, 19149, 19150, 19151, and 19161 for more information.

**Note:** If the S corporation uses Exception B or Exception C to compute or eliminate any of the four installments, form FTB 5806 must be attached to the **front of** Form 100S and the box on Side 2, line 41b, should be checked.

### EFT Penalty

If the S corporation must pay its tax liability using EFT, **ALL** payments must be remitted by EFT to avoid the EFT penalty. The EFT penalty is 10% of the amount not paid by EFT. See R&TC Section 19011 and General Information G, Electronic Funds Transfer (EFT) for more information.



## Information reporting penalties

For taxable years beginning on or after January 1, 1997, U.S. corporations that have an ownership interest in (directly or indirectly) a foreign corporation and were required to file federal Form(s) 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, with the federal return, must attach a copy(ies) to the California return. The penalty for failure to include a copy of federal Form(s) 5471, as required, is \$1,000 per required form for each year the failure occurs. The penalty applies for taxable years beginning on or after January 1, 1998. The penalty will not be assessed if the taxpayer provides a copy of the form(s) within 90 days of request from the FTB and the taxpayer agrees to attach a copy(ies) of federal Form 5471 to all returns filed for subsequent years.

Certain domestic corporations that are 25% or more foreign-owned and foreign corporations engaged in a U.S. trade or business must attach federal Form(s) 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business, to Form 100S. The penalty for failure to include Form(s) 5472, as required, is \$10,000 per required form for each year the failure occurs. See R&TC Section 19141.5 for more information.

If the S corporation does not file its Form 100S by the due date or extended due date, whichever is later, copies of federal Form(s) 5472 must still be filed on time or the penalty will be imposed. Attach a cover letter to the copies indicating the taxpayer's name, California corporation number, and taxable year. Mail to the same address used for returns without payments. See General Information H, Where to File. When the S corporation files Form 100S, also attach copies of the federal Form(s) 5472.

## Record maintenance penalty

The penalty for failure to maintain certain records is \$10,000 for each taxable year for which the failure applies. In addition, if the failure continues for more than 90 days after the FTB notifies the S corporation of the failure, in general, a penalty of \$10,000 may be assessed for each additional 30-day period of continued failure. For taxable years beginning on or after January 1, 1996, there is no maximum amount of penalty that may be charged.

See "Important Information" starting on page 3 for a discussion of the records required to be maintained. See R&TC Section 19141.6 and the related regulations for more information.

## Accuracy and fraud related penalties

California conforms to IRC Sections 6662 through 6665 that authorize the imposition of an accuracy-related penalty equal to 20% of the related underpayment and the imposition of a fraud penalty equal to 75% of the related underpayment. See R&TC Section 19164 for more information.

## California Secretary of State penalty

The California Corporations Code requires the FTB to assess a penalty for failure to file a Statement of Information with the California

SOS. For more information, see R&TC Section 19141 or contact:

STATEMENT OF INFORMATION UNIT  
ATTENTION: PENALTY  
CALIFORNIA SECRETARY OF STATE  
PO BOX 944230  
SACRAMENTO CA 94244-2300  
Telephone: (916) 657-3537

## Other penalties

Other penalties may be imposed for a check or EFT returned for insufficient funds, non-U.S. foreign corporations operating while forfeited or without qualifying to do business in California, and domestic corporations operating while suspended in California. See R&TC Sections 19134 and 19135 for more information.

## N Interest

Interest is due and payable on any tax due if not paid by the original due date of Form 100S. Interest is also due on some penalties. The automatic extension of time to file Form 100S does not stop interest from accruing. California follows federal rules for the calculation of interest. Get FTB Pub. 1138, Business Entity Refund/Billing Information, for more information.

## O Dissolution/Withdrawal

The S corporation must fill in the applicable box on Form 100S, Side 1, question A, if dissolving, merging, or withdrawing. The date should be the date the S corporation filed with the California SOS.

The franchise tax for the period in which the S corporation formally dissolves or withdraws is measured by the income of the year in which it ceased doing business in California, unless such income has already been taxed at the rate prescribed for the taxable year of dissolution or withdrawal.

An S corporation that is a successor to a corporation that commenced doing business in California before January 1, 1972, is allowed a credit that may be refunded in the year of dissolution or withdrawal. The amount of the refundable credit is the difference between the minimum franchise tax for the corporation's first full 12 months of doing business and the total tax paid for the same period.

To claim this credit, enter the amount on Form 100S, Side 1, line 34. To the left of line 34, write "Dissolving/ Withdrawal."

The return for the final taxable period is due on or before the 15th day of the 3rd full month after the month during which the S corporation formally dissolved or withdrew.

To get samples and/or forms for filing a dissolution, surrender, or merger agreement go to the SOS Website at [www.ss.ca.gov](http://www.ss.ca.gov) and search for **corporation dissolution**. Or address your request to:

ATTN: LEGAL REVIEW  
CALIFORNIA SECRETARY OF STATE  
1500 11TH ST 3RD FLOOR  
SACRAMENTO CA 95814-5701  
Telephone: (916) 657-5448

## P Ceasing Business

For taxable years beginning on or after January 1, 2000 (other than the first taxable year beginning on or after that date), the tax for the final year in which the S corporation does business in California is determined according to or measured by its net income for the taxable year during which the S corporation ceased doing business.

In any event, the tax for any taxable year shall not be less than the minimum tax.

For more information, see R&TC Section 23151.1.

The unreported income on installment obligations, the distribution of notes, and the distribution of corporate assets (land, buildings) at a gain must be included in income in the year of cessation. There is no federal law counterpart regarding this issue.

For more information, see R&TC Sections 24672 and 24451.

**Note:** A domestic or qualified S corporation will remain subject to the minimum franchise tax for each year it is in existence until a certificate of dissolution (and certificate of winding up, if necessary), or certificate of withdrawal is filed with the California SOS. See General Information O, Dissolution/Withdrawal, and R&TC Sections 23331 through 23335 for more information.

## Q Suspension/Forfeiture

If an S corporation does not file Form 100S and/or does not pay any tax, penalty, or interest due, its powers, rights, and privileges may be suspended (in the case of a domestic S corporation) or forfeited (in the case of a foreign S corporation).

S corporations that operate while suspended or forfeited are subject to a \$2,000 penalty per taxable year, which is in addition to any tax, penalties, and interest already accrued. Also, any contracts entered into during suspension or forfeiture are voidable at the request of any party to the contract other than the suspended or forfeited corporation.

Such contracts will remain voidable and unenforceable unless the S corporation applies for relief from contract voidability and the FTB grants relief.

See R&TC Sections 19135, 19719, 23301, 23305.1, and 23305.2 for more information.

## R Apportionment of Income

S corporations with business income attributable to sources both within and outside of California are required to apportion such income. To calculate the apportionment percentage, use Schedule R, Apportionment and Allocation of Income. Be sure to answer Question P on Form 100S, Side 2.

**Note:** A corporation that has made a valid election to be treated as an S corporation is generally not included in a combined report. However, in some cases, the FTB may use combined reporting methods to clearly reflect income of an S corporation. See R&TC Section 23801(d)(1).



## **S Excess Net Passive Investment Income**

California conforms to IRC Section 1375 for taxable years beginning on or after January 1, 1987. If an S corporation does not have excess net passive investment income for federal purposes, then the S corporation will not have excess net passive investment income for California purposes.

If at the close of the taxable year, an S corporation has undistributed earnings and profits – defined in IRC Section 1362(d)(3) – from previous years as a C corporation and has passive investment income that represents more than 25% of total gross receipts, then the S corporation may be subject to a tax on the excess net passive investment income (R&TC Section 23811).

If an S corporation has an 80% or greater ownership stake in a C corporation, dividends received from that C corporation are not treated as passive investment income, for purposes of IRC Sections 1362 and 1375, if the dividends are attributable to the earnings and profits of the C corporation derived from the active conduct of a trade or business.

## **T Water's-Edge Reporting**

C corporations filing on a water's-edge basis are required to use Form 100W, California Corporation Franchise or Income Tax Return – Water's-Edge Filers, to file their California tax return. S corporations filing on water's-edge basis should use Form 100S to file their California tax return.

Taxpayers may elect to compute income attributable to California on the basis of a water's-edge election. In general, affiliated foreign corporations are excluded from the combined report.

To make the water's-edge election, an S corporation should file Form 100-WE, Water's-Edge Election. For the election to be valid for any taxable year, Form 100-WE should be signed and attached to the original timely filed Form 100S. A copy should be attached to all subsequent returns filed during the election period.

To be allowed to file on a water's-edge basis, the S corporation must, among other things:

- File returns on a water's-edge basis for a period of 84 months;
- Agree to business income treatment of dividends received from certain corporations; and
- Consent to the taking of certain depositions and the acceptance of subpoenas duces tecum requiring the reasonable production of documents.

Get Form 100W, California Corporation Tax Booklet – Water's-Edge Filers, for more information.

## **U Amended Return**

To correct or change a previously filed Form 100S, file the most current Form 100X, Amended Corporation Franchise or Income Tax Return. Using the incorrect form may delay processing of the amended return. File Form

100X within six months after the corporation filed an amended federal return or after the final federal determination, if the Internal Revenue Service (IRS) examined and changed the corporation's federal return.

## **V Information Returns**

Every S corporation engaged in a trade or business and making or receiving certain payments in the course of the trade or business is required to file information returns to report the amount of such payments.

Payments that must be reported include, but are not limited to:

- Payments exceeding \$600 annually for compensation for services not subject to withholding, commissions, fees, prizes and awards, payments to independent contractors, rents, royalties, legal services whether or not the payee is incorporated, interest (such as interest charged for late payment), and pensions;
- Payments exceeding \$10 annually for interest earned and dividends;
- All payment amounts made by a broker or barter exchange;
- All payment amounts for gross proceeds paid to an attorney whether or not the services are performed for the payer; and
- Cash payments over \$10,000 received in a trade or business.

See instructions for federal Forms 1099 (series), 1098, 5498, and W-2-G; federal Publication 1220, Specifications for Filing Forms 1098, 1099, 5498 and W-2G Electronically or Magnetically; form FTB 4227A, Guide to Information Returns Filed With California; and form FTB 8305, Reporting Requirements for Forms 1098, 1099, 5498, and W-2G.

Report payments to FTB and IRS using the appropriate federal form. Reports must be made for the calendar year. Federal Forms 1099 (series), 1098, and W-2G's are due no later than February 28th and federal Form 5498 is due by May 30th of the year following payment. However, if the due date falls on a holiday or weekend, it is extended to the next business day. Federal Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, is due within 15 days after the date of the transaction.

California requires S corporations to report to FTB interest paid on municipal bonds held by California taxpayers and issued by a state other than California, or a municipality other than a California municipality. Entities paying interest to California residents on these types of bonds are required to report interest payments aggregating \$10 or more and paid after January 1, 2005. These information returns will be due June 1, 2006. For more information, get form FTB 4800, Federally Tax Exempt Non-California Bond Interest and Interest-Dividend Payments Information.

California conforms to the information reporting requirements imposed under IRC Sections 6038 through 6038C. Any federal Forms 5471, 5472, or 926 required to be filed for federal purposes under these IRC sections are also required to be filed for California purposes. These federal information returns

should be attached to the Form 100S when filed. If these information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

## **W Preparer Tax Identification Number**

Tax preparers have the option of providing their individual Social Security Number (SSN) or Preparer Tax Identification Number (PTIN) on returns they prepare. Preparers who want a PTIN must complete and submit federal Form W-7P, Application for Preparer Tax Identification Number, to the IRS.

## **X Net Operating Loss (NOL)**

For taxable years beginning on or after January 1, 2004, California has reinstated the Net Operating Loss (NOL) carryover deductions. The carryover periods for an NOL incurred in years:

- beginning before January 1, 2002, have been extended for two years.
- beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.

For taxable years beginning on or after January 1, 2004, 100% of the NOL may be carried forward. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations.

For taxable years beginning on or after January 1, 2002, the NOL carryover computation for the California taxable income of a nonresident or part-year resident is no longer limited by the amount of net operating loss from all sources. Only your California sourced income and losses are considered in determining if you have a California NOL. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency, and form FTB 3805V, Net Operating Loss (NOL) Computation and NOL Disaster Loss Limitations – Individuals, Estates, and Trusts.

Carryover periods varying from 5 to 15 years and carryover deductions varying from 50% to 100% are allowed for NOLs sustained by qualified corporations.

R&TC Sections 24416 through 24416.7 and 25108 provide for NOL carryovers incurred in the conduct of a trade or business.

R&TC Section 24347.5 provides special treatment for the carryover of disaster losses incurred in an area designated by the President of the United States or the Governor of California as a disaster area. Losses taken into account under the disaster provisions may not be included in computing regular NOL deductions.

For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations (included in this booklet); or get form FTB 3805D, Net Operating Loss (NOL) Carryover Computation and Limitation – Pierce's Disease; form FTB 3805Z, Enterprise Zone Business Booklet; form FTB 3806, Los Angeles Revitalization Zone Booklet; form

FTB 3807, Local Agency Military Base Recovery Area Booklet; or form FTB 3809, Targeted Tax Area Business Booklet.

## Y At-Risk Rules

California S corporations are subject to IRC Section 465 relating to the at-risk rules. For more information, see federal Form 6198, At-Risk Limitations. Losses from passive activities are first subject to the at-risk rules and then to the passive activity rules.

## Z Passive Activity Loss Limitation

California S corporations generally follow IRC Section 469 and the regulations thereunder that allow losses from passive activities to be applied only against income from passive activities.

California differs from federal law in that rental real estate activities of taxpayers engaged in a real property business are still treated as a passive activity.

California law also differs from federal law in that the passive activity loss rules are applied at both the S corporation level and at the shareholder level. The passive activity loss rules must be applied in determining the net income of the S corporation that will be taxed using the 1.5% tax rate. Subsequent to the income and deductions flowing through to the shareholders, the rules are again applied in determining the net income of the shareholder. Treatment at the shareholder level is the same as the federal treatment prior to January 1, 1994.

The passive activity loss rules apply to the S corporation as if it were an individual (i.e., losses from passive activities may not be used to offset other income, except for \$25,000 in losses from rental real estate). However, when determining whether the S corporation materially participates in the activity, the material participation rules that apply to a "closely held C corporation" should be applied to the S corporation. For more information, see IRC Section 469(h)(4).

S corporations must use form FTB 3801, Passive Activity Loss Limitations, to compute the allowable net loss from passive activities.

## AA Passive Activity Credits

S corporation credits subject to the passive activity credit limitation rules include:

- Research credit;
- Low-income housing credit;
- Targeted jobs credit carryover; and
- Clinical testing expense credit carryover.

Get form FTB 3801-CR, Passive Activity Credit Limitations, for more information.

## BB Tax Credits

If a C corporation had unused credit carryovers when it elected S corporation status, the carryovers were reduced to 1/3 and transferred to the S corporation. The remaining 2/3 were disregarded. The allowable carryovers may be used to offset the 1.5% tax on net income in accordance with the respective carryover rules. These C corporation carryovers may not be

passed through to shareholders. Refer to Schedule C (100S), S Corporation Tax Credits, included in this booklet.

S corporations may generate credits from both the Corporation Tax Law and the Personal Income Tax Law. Follow the guidelines below:

- If a credit listed on page 47 is allowed only under the Corporation Tax Law, 1/3 of the credit may be used to offset the S corporation tax or may be carried over, if allowed. The remaining 2/3 must be disregarded and may not be carried over. No part of the credit may be passed through to the shareholders.
- If the credit is allowed only under Personal Income Tax Law, the full credit may be passed through to the shareholders. No part of the credit may be used by the S corporation to offset the S corporation tax or to be carried over.
- If a credit is allowed under both the Corporation Tax Law and Personal Income Tax Law, the S corporation may use 1/3 of the credit to offset the S corporation tax or it may be carried over, if allowed. The remaining 2/3 must be disregarded and may not be carried over. The full amount of the credit, as calculated under the Personal Income Tax Law, may also be passed through to the shareholders.

Credits and credit carryovers may not reduce the minimum franchise tax, the QSub annual tax(es), built-in gains tax, excess net passive income tax, credit recaptures, the increase in tax imposed for the deferral of installment sale income, or an installment of last-in, first-out (LIFO) recapture tax.

## CC Group Nonresident Shareholder Return

Nonresident individual shareholders of an S corporation doing business in California may elect to file a group nonresident return on Long Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. Get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR, for more information.

## DD Qualified Subchapter S Subsidiary (QSub)

California has conformed to the sections of the IRC that allow an S corporation to own a QSub. A QSub is a domestic corporation that is not an ineligible corporation, i.e., it must be eligible to be an S corporation as defined by IRC Section 1361(b)(2). In addition, 100% of the stock of the subsidiary must be held by the S corporation parent and the parent must elect to treat the subsidiary as a QSub. A QSub is not treated as a separate entity and all assets, liabilities, and items of income, deduction, and credit of the QSub are treated as belonging to the parent S corporation. The activities of the QSub are treated as activities of the parent S corporation.

An election made by the parent S corporation under IRC Section 1361(b)(3) to treat the corporation as a QSub for federal purposes is treated as a binding election for California

purposes. A separate election is not filed for California.

The federal election is made on federal Form 8869, Qualified Subchapter S Subsidiary Election. For information on making the election, get IRS Notice 97-4, 1997-1 C.B. 351. California requires that an S corporation parent attach a copy of the Form 8869 for each QSub doing business or qualified to do business in California to the return for the taxable year during which the QSub election was made. California follows the federal transitional relief procedures for perfecting a QSub election.

A QSub is subject to an \$800 annual tax which is paid by the S corporation parent. The QSub annual tax is due and payable when the S corporation's first estimated tax payment is due. If the QSub is acquired, or a QSub election is made during the taxable year, the QSub annual tax is due with the S corporation's next estimated tax payment after the date of the QSub election or acquisition. The QSub annual tax is subject to the estimated tax rules and penalties.

An S corporation that owns a QSub does not file a combined return. Instead, the QSub is disregarded, and the activities, assets, liabilities, income, deductions, and credits of the QSub are considered to be the assets, liabilities, income, and credits of the S corporation. If the QSub is not unitary with the S corporation, then it is treated as a separate division and separate computations must be made to compute business income and apportionment factors for the QSub and the S corporation, and to apportion to California the business income of each.

An S corporation parent must complete the Schedule QS, Qualified Subchapter S Subsidiary Information Worksheet, on page 39 and attach it to the Form 100S for each taxable year in which a QSub is acquired or a QSub election is made.

## EE California Use Tax

The use tax has been in effect in California since July 1, 1935. It applies to purchases from out-of-state sellers and is similar to the sales tax paid on purchases made in California.

In general, S corporations must pay California use tax on purchases made from out of state (for example, by telephone, over the Internet, by mail, or in person) if:

- The seller does not collect California sales or use tax, and
- The S corporation uses, gives away, stores, or consumes the item in this state.

**Example:** The S corporation purchases a conference table from a company in North Carolina. The company ships the table from North Carolina to the corporation's address in California for the corporation's use and does not charge California sales or use tax. The S corporation owes use tax on the purchase.

**Complete the Use Tax Worksheet** on page 15 to calculate the amount due.

**Extensions to file.** If the S corporation requests an extension to file the tax return, wait until the S corporation files the return to

report the purchases subject to use tax and to make the use tax payment.

**Penalty.** To avoid late payment penalties for use tax, the corporation must report and pay the use tax with a timely filed franchise or income tax return.

**Changes in use tax reported:** Do not file an Amended S Corporation Franchise or Income Tax Return to revise the use tax previously reported. If the S corporation has changes to the amount of use tax previously reported on the original tax return, contact the State Board of Equalization.

**For assistance,** please visit the State Board of Equalization's Website at [www.boe.ca.gov](http://www.boe.ca.gov) or call their Information Center at (800) 400-7115 or TTY/TDD (800) 735-2929. Income tax information is not available at this number.

## FF Property Subject To IRC Section 179 Recapture

Special rules apply for gains from the sale, exchange or disposition of property for which an IRC Section 179 expense deduction was claimed in a prior year. For federal purposes, the gain is no longer included in income at the entity level. However, it must be included in the taxable income of the S corporation for California purposes.

S corporations should follow the instructions in federal Form 4797 **with the exception** that the amount of gain on property subject to the IRC Section 179 expense deduction recapture (capital gain and ordinary gain) must be included in the taxable income of the S corporation. To accomplish this, the S corporation will need to compute **two sets** of Schedule D-1 and Schedule D (100S). One set of Schedule D-1 and Schedule D (100S) will include the sale or disposition of both IRC Section 179 assets **and** the sale of non-Section 179 business assets with the amount reported on Form 100S, Side 1, line 4.

The second set of Schedule D-1 and Schedule D (100S) will include the sale or disposition of non-Section 179 business assets only, with the amount reported on the Schedules K (100S) and K-1 (100S).

See Specific Line Instructions for Property Subject to IRC Section 179 Expense Deduction Recapture. Also see the Schedule D-1 Instructions.

**Note:** The S corporation should report the gain on property subject to the IRC Section 179 expense deduction recapture passed through to the shareholders on the Schedule K (100S) and Schedule K-1 (100S) as supplemental information as instructed on the federal Form 4797.

## GG Limited Liability Companies (LLCs)

California law authorizes the formation of LLCs and recognizes out-of-state LLCs registered or doing business in California. The taxation of an LLC in California depends upon its classification as a corporation, partnership, or "disregarded entity" for federal tax purposes.

If an LLC elects to be taxed as a corporation or S corporation for federal tax purposes, it must file Form 100 or 100S. LLCs electing to be taxed as corporations are subject to the applicable provisions of the Corporation Tax Law, and should be considered a corporation for purposes of all instructions unless otherwise indicated. Also, the Franchise Tax Board will assign an identification number to an LLC that files as a corporation. The LLC will be notified of this identification number upon receipt of the first estimated tax payment or the first tax return.

Note that the Employment Development Department does not recognize the check-the-box regulations, i.e. an LLC that elects to be an S corporation may not treat managing members as employees for EDD purposes. However, the EDD will allow the LLC to report the managing members' earnings as "State Wages" on the federal W-2. The W-2 should report state personal income tax wages but no SDI wages. Any withholding amount is entered in the state tax withholding box.

If an LLC elects to be taxed as a partnership for federal tax purposes, it must file Form 568. LLCs taxed as partnerships determine their income, deductions, and credits under the Personal Income Tax Law and are subject to an annual tax as well as an annual fee based on total income.

If a single member LLC is disregarded for federal tax purposes, it must file Side 1 and Side 3 of Form 568. A disregarded LLC reports its income, deductions, and credits on the return of its owner. However, an LLC that is disregarded is subject to the annual LLC tax as well as a fee based on total income. Form 568, Side 1, provides the FTB with information on the sole owner of the LLC, contains the owner's consent to be taxed on the income of the LLC, and provides for the computation of the LLC tax and fee.

## Specific Line Instructions

Filing Form 100S without errors will expedite processing. Before mailing Form 100S, make sure entries have been made for:

- California corporation number (seven digits);
- Federal employer identification number (FEIN) (nine digits);
- Refund or amount due boxes (check only one box); and
- Corporation name and address (include PMB no.; if applicable).

File the 2005 Form 100S for calendar year 2005 and fiscal years that begin in 2005.

Enter taxable year beginning and ending dates **only** if the return is for a short year or a fiscal year. If the S corporation reports its income using a calendar year, leave the date area blank. If the return is filed for a short period (less than 12 months), write "short year" in red in the top margin on Form 100S, Side 1. Convert all foreign monetary amounts to U. S. dollars.

**Note:** The 2005 Form 100S may also be used if:

- The corporation has a taxable year of less than 12 months that begins and ends in 2006; **and**
- The 2006 Form 100S is not available at the time the corporation is required to file its return. The S corporation must show its 2006 taxable year on the 2005 Form 100S and incorporate any tax law changes that are effective for taxable years beginning after December 31, 2005.

**Caution:** California law is different from federal law. California taxes S corporations under Chapter 2 (commencing with R&TC Section 23101) or Chapter 3 (commencing with R&TC Section 23501) of the Corporation Tax Law.

## Questions A through Q

Answer all applicable questions and attach additional sheets, if necessary. Be sure to answer Questions B through Q on Form 100S, Side 2. Note the following instructions when answering:

### Question B – Transfer or acquisition of voting stock

All S corporations **must** answer Question B. If the answer is "Yes," a "Statement of Change in Control and Ownership of Legal Entities" (BOE-100-B) must be filed with the State Board of Equalization (BOE), or substantial penalties may result. Forms and information may be obtained from the BOE Website at [www.boe.ca.gov](http://www.boe.ca.gov) or by calling (916) 323-5685.

Answer "Yes" if:

- The percentage of outstanding voting shares of this S corporation or its subsidiary(ies) owned by **one** person or **one** entity cumulatively exceeded 50% during this year; or
- The total voting shares transferred to **one** irrevocable trust cumulatively exceeded 50% during this year; or
- One or more irrevocable proxies transferred voting rights to more than 50% of the outstanding shares to **one** person or **one** entity during this year; or
- This S corporation's cumulative ownership or control of the stock or other ownership interest in any legal entity exceeded 50% during this year; or
- Cumulatively more than 50% of the total outstanding shares of this S corporation have transferred or changed ownership or control this year.

R&TC Section 64(e) requires this information for use by the California State BOE.

### Question C – Principal business activity (PBA) code

All S corporations **must** answer Question C.

Include the six digit PBA code from the chart found on page 48 through page 50 of this booklet.

The code should be the number for the specific industry group from which the greatest percentage of California "total receipts" is derived. "Total receipts" means gross receipts plus all other income. The California PBA code



number may be different from the federal PBA code number.

If, as its principal business activity, the corporation: (1) purchases raw material; (2) subcontracts out for labor to make a finished product from the raw materials; and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes under "Manufacturing." Also, write in the business activity and principal product or service on the lines provided.

#### **Question E – Does this return include Qualified Subchapter S Subsidiaries (QSubs)?**

Answer "Yes" if the S corporation owns a QSub. Refer to the instructions for line 22 and line 32 to report the QSub annual tax. Be sure to complete Schedule QS (QSub Information Worksheet) on page 39 of this booklet and attach the Worksheet to Form 100S when filed.

#### **Question Q – Has the S corporation included a Reportable Transaction, Listed Transaction or Registered Tax Shelter within this return?**

A Reportable Transaction is any transaction as defined in R&TC Section 18407 and Trea. Reg. Section 1.6011-4 and includes, but is not limited to:

- A Listed Transaction, or a transaction that is substantially similar to a Listed Transaction, which has been identified by the IRS or the FTB to be a tax avoidance transaction.
- A Confidential Transaction which is offered to a taxpayer under conditions of confidentiality and for which the taxpayer has paid a minimum fee.
- A transaction with contractual protections which provides the taxpayer with the right to a full or partial refund of fees if all or part of the intended tax consequences from the transaction are not sustained.
- A loss transaction under IRC Section 165 which is at least \$10 million in any one year or \$20 million in any combination of tax years. (Those numbers would be reduced to \$2 million and \$4 million on the Form 100S.)
- A transaction with a significant book-tax difference.

- A transaction where the taxpayer is claiming a tax credit of greater than \$250,000 and held the asset for less than 45 days.

A Listed Transaction is a specific transaction, or one that is substantially similar, which has been identified by the IRS or the FTB to be a tax avoidance transaction.

A Registered Tax Shelter is any investment which is required to be registered with the IRS under IRC Section 6111.

### **Line 1 through Line 41**

#### **Line 1 – Ordinary income (loss) from trade or business**

S corporations using the federal reconciliation method to figure net income (see General Information I, Net Income Computation) must:

- Transfer the amount from federal Form 1120S, line 21 to Form 100S, Side 1, line 1 and attach a copy of the federal return and all pertinent supporting schedules; or copy the information from federal Form 1120S, page 1, onto Form 100S, Side 3, Schedule F and transfer the amount from Schedule F, line 22, to Form 100S, Side 1, line 1.
- Then, complete Form 100S, Side 1, line 2 through line 14, State Adjustments.

S corporations using the California computation to figure ordinary income (see General Information I, Net Income Computation) must transfer the amount from Form 100S, Side 3, Schedule F, line 22, to line 1. Complete Form 100S, Side 1, line 2 through line 14, only if applicable.

#### **Line 2 through Line 14 – State adjustments**

To figure net income for California purposes, corporations using the federal reconciliation method (see General Information I, Net Income Computation) must enter California adjustments to the federal net income on line 2 through line 14. If a specific line for the adjustment is not on Form 100S, enter the adjustment on line 7, Other additions, or line 13, Other deductions, and attach a schedule.

#### **Line 2 – Taxes not deductible**

California law does not permit a deduction for California corporation franchise or income taxes or any other taxes on, according to, or measured by income or profits. Add these taxes to income on line 2. Examples of these taxes are California's minimum franchise tax, the 1.5% income or franchise tax, and the environmental taxes imposed by IRC Section 59A.

#### **Line 3 – Interest on government obligations**

S corporations subject to the California franchise tax must report interest received on government obligations even though it may be exempt from state or federal individual income tax. This interest must be added to income on line 3. See line 13 instructions for S corporations subject to the California corporation income tax.

#### **Line 4 – Net capital gain**

Enter on this line any net capital gain subject to the 1.5% tax rate (3.5% for financial S corporations) shown on Schedule D (100S), Section B, and any gains subject to the 8.84% tax rate (10.84% for financial S corporations) shown on Schedule D (100S), Section A, line 3a and line 6a.

#### **Property Subject To IRC Section 179 Expense Deduction Recapture**

If the S corporation has a gain from the sale, exchange or disposition of property for which an IRC Section 179 expense deduction was claimed in a prior year, special rules apply. For federal purposes, the gain is no longer included in income at the entity level. However, it must be included in the taxable income of the S corporation for California purposes on Form 100S, line 4. See General Information FF, Property Subject To IRC 179 Expense Deduction Recapture, for additional information.

The S corporation should complete **two sets** of Schedule D-1 and Schedule D (100S). One set of Schedule D-1 and Schedule D (100S) will include the gain or loss from the sale or disposition of IRC Section 179 assets as well as gain or loss from non-Section 179 business assets, and will be reported on the Form 100S. Indicate at the top of this Schedule D-1 and Schedule D (100S) "IRC Sec. 179 and Bus. Assets". When completing Schedule D-1 and

### **Excess Net Passive Income and Income Tax Worksheet**

1 Enter gross receipts for the taxable year (see IRC Section 1362(d)(3)(B) for gross receipts from the sale of capital assets)*	1		
2 Enter passive investment income as defined in IRC Section 1362(d)(3)(C)*	2		
3 Enter 25% (.25) of line 1. If line 2 is less than line 3, the corporation is not liable for this tax	3		
4 Excess passive investment income. Subtract line 3 from line 2	4		
5 Enter expenses directly connected with the production of income on line 2. See IRC Section 1375(b)(2)*	5		
6 Net passive income. Subtract line 5 from line 2	6		
7 Divide the amount on line 4 by the amount on line 2	7		
8 Excess of net passive income. Multiply line 6 by line 7. See instructions on line 11 below	8		
9 Enter taxable income**	9		
10 Enter the smaller of line 8 or line 9	10		
11 Excess net passive income tax. Enter 8.84% (financial S corporations must use 10.84%) of line 10 here and on Form 100S, Side 1, line 29. (If an amount is entered here, go to line 8 above and carry the line 8 amount to Form 100S, line 17.)	11		

\* Income and expenses on line 1, line 2, and line 5 are from total operations for the taxable year. This includes applicable income and expenses from Form 100S, Side 1. See IRC Sections 1362(d)(3)(C) and 1375(b)(4) for exceptions regarding line 2 and line 5.

\*\* Taxable income is defined in federal Treas. Regulations Section 1.1374-1A(d). Figure taxable income by completing line 1 through line 17 of Form 100, California Corporation Franchise or Income Tax Return. Clearly mark "ENPI Taxable Income" on the Form 100 computation and attach it to Form 100S.

Schedule D (100S) for the 100S, skip any instructions to report the gain or loss on Schedule K (100S) or Schedule K-1 (100S). Transfer the gain amount to Form 100S, Side 1, line 4.

The second set of Schedule D-1 and Schedule D (100S) is to report the gain or loss on non-Section 179 business assets for use on the Schedule K (100S) and K-1 (100S). To accomplish this, the S corporation should complete a Schedule D-1 and Schedule D (100S) with the gain or loss for the non-Section 179 business assets only. The amounts from this Schedule D-1 and Schedule D (100S) will be reported on the Schedule K (100S) and Schedule K-1 (100S). Indicate at the top of the Schedule D-1 and Schedule D (100S) set "Non-Section 179 Business Assets Only".

#### Line 5 – Depreciation and amortization

Depreciation for S corporations follows the depreciation rules provided under California Personal Income Tax Law. Unlike other corporations, an S corporation is allowed to compute depreciation using the Modified Accelerated Cost Recovery System (MACRS). Complete Schedule B (100S) for assets subject to depreciation and for assets subject to amortization. Enter the total of Schedule B, Part III, on Form 100S, Side 1, line 5.

#### Line 6 – Portfolio income

Enter on this line net portfolio income not included in line 1 but that must be included in the S corporation's net income for computing the 1.5% tax. Include interest, dividends, and royalties. Do not include any passive activity amounts on this line. Instead, include passive activity amounts on line 7 or line 13.

#### Line 7 – Other additions

R&TC Section 24425 disallows expenses allocable to income, which is not included in the measure of the Franchise Tax or Income Tax. Add back such deductions on this line.

Also, include on this line other items not added on any other line to arrive at California net income. Attach a schedule that clearly shows how each item was computed and explain the basis for the adjustment.

If a federal contribution deduction was taken in arriving at the amount entered on line 1, include that amount in the computation of line 7. See line 11, Contributions.

Enter any passive activity income on line 7.

#### California ordinary net gain or loss

Before entering the amount from Schedule D-1, line 18, determine whether the gain is subject to built-in gains tax. If the gain is subject to built-in gains tax, enter the amount on Schedule D (100S), Part III so the built-in gains tax can be computed, and enter the difference between the amount on Schedule D-1, line 18 and the amount subject to built-in gains tax on Form 100S, Side 1, line 7.

#### Line 9 and Line 10 – Dividends

Complete Schedule H (100S), Dividend Income Deduction, included in this booklet.

#### Line 11 – Contributions

The contribution deduction for California corporations is limited to the adjusted basis of the assets being contributed.

For taxable years beginning on or after January 1, 1996, the contribution deduction is 10% of California net income, without regard to charitable contributions and special deductions (e.g., the deduction for dividends received). The definition of California net income differs from federal taxable income for computing the contribution deduction.

Per IRC Section 170(d)(2), five-year carryover provisions shall apply for excess contributions made during taxable years beginning on or after January 1, 1996.

On a separate worksheet, using the Form 100S format, complete Form 100S, Side 1, line 1 through line 15 (without regard to line 11). If any federal contribution deduction was taken in arriving at the amount entered on Side 1, line 1, enter that amount as an addition on line 7 of the Form 100S formatted worksheet. Enter the adjusted basis of the assets contributed on line 5 of the following worksheet. Then complete the worksheet to determine the contribution deduction to enter on line 11.

1. Net income after state adjustments from Side 1, line 15 ..... \_\_\_\_\_
2. Deduction for dividends received ... \_\_\_\_\_
3. Net income for contribution calculation purposes. Add line 1 and line 2 ..... \_\_\_\_\_
4. Allowable contributions. Multiply line 3 by 10% (.10) ..... \_\_\_\_\_
5. Enter the amount actually contributed ..... \_\_\_\_\_
6. Enter the smaller of line 4 or line 5 here and on Side 1, line 11 ... \_\_\_\_\_

Get Schedule R, Apportionment and Allocation of Income, to figure the contribution computation for apportioning corporations.

#### Line 12 – EZ, LAMBRA, or TTA business expense and/or EZ net interest deduction

Businesses conducting a trade or business within an Enterprise Zone (EZ), Local Agency Military Base Recovery Area (LAMBRA), or Targeted Tax Area (TTA) may **elect** to treat a portion of the cost of qualified property as a business expense rather than a capital expense. For the year the property is placed in service, the business may deduct a percentage of the cost in that year rather than depreciate it over the life of the asset. For more information, get form FTB 3805Z, form FTB 3807, or form FTB 3809.

Also, a deduction may be claimed on this line for the amount of net interest on loans made to an individual or company doing business inside an EZ. For more information, get form FTB 3805Z.

Be sure to attach a copy of the applicable form to the Form 100S if any of these benefits are claimed. If the proper form is not attached, these tax benefits may be disallowed.

#### Line 13 – Other deductions

Include on this line deductions not claimed on any other line. Attach a schedule that clearly shows how each deduction was computed and explain the basis for the deduction.

Include in the computation for line 13 any passive activity loss. Also enter any IRC Section 179 expense from Schedule B (100S), line 5.

For S corporations subject to income (and not franchise) tax, interest received on obligations of the federal government and on obligations of the State of California and its political subdivisions is exempt from income tax. If such interest is reported on line 3, deduct it on this line.

#### Federal ordinary net gain or loss

Enter any federal ordinary net gain or loss from federal Form 4797, Sales of Business Property, line 18, if the amount is included in income on line 1.

#### Line 16 – Net income (loss) for state purposes

If all the S corporation income is derived from California sources, transfer the amount from line 15 to line 16.

If only a portion of income is derived from California sources, complete Schedule R, before entering any amount on line 16. Transfer the amount from Schedule R, line 35, to this line. Be sure to answer "Yes" to Question P on Form 100S, Side 2.

If this line is a net loss, complete and attach the 2005 form FTB 3805Q to Form 100S.

#### Line 17 – R&TC Section 23802(e) deduction

If the S corporation has a tax imposed on excess net passive investment income and built-in gains, a deduction is allowed against the net income taxed at the 1.5% rate. See the "Excess Net Passive Income and Income Tax Worksheet," on page 12 to determine if the S corporation is subject to the tax on excess net passive investment income. If a tax is shown on this worksheet, enter the amount of excess net passive income from line 8 of the worksheet on Form 100S, Side 1, line 17.

For purposes of the built-in gains tax, enter the amount from Schedule D (100S), Section A, Part III, line 11.

#### Line 18 – Net operating loss (NOL) carryover deduction

The NOL deduction is the amount of the NOL carryover from prior years that may be deducted from income in this taxable year. However, the loss may not reduce the S corporation's current year income below zero. Any excess loss must be carried forward.

If line 16 less line 17 is a positive amount, enter the NOL carryover (but not more than line 16 less line 17) from the S corporation's **2005** form FTB 3805Q, Part III, line 3 on Form 100S, Side 1, line 18. Attach a copy of the **2005** form FTB 3805Q to Form 100S. If the full amount of the NOL carryover is not deducted this year, complete and attach a **2005** form FTB 3805Q showing the computation of the NOL carryover to future years.

If line 16 less line 17 is a negative amount, enter -0- on line 18 and see form FTB 3805Q instructions for the computation of the NOL carryover to future years.

No NOL carryover arising from a year in which an S corporation was a C corporation may be applied against the 1.5% tax. See IRC Section 1371(b)(1) and R&TC Section 23802(d). However, if the corporation terminates its S election, thus becoming a C corporation, then the prior year NOL carryover may be used to the extent it has not expired.

**Note:** NOL carryovers arising from a year in which the S corporation was a C corporation may be used in computing the tax on built-in gains.

#### **Line 19 – Pierce’s disease, EZ, LARZ, TTA, or LAMBRA NOL carryover deduction**

An NOL generated by a farming business due to Pierce’s disease or a business that operates (operated) or invests (invested) within an EZ, the former Los Angeles Revitalization Zone (LARZ), the TTA, or a LAMBRA receives special tax treatment. The loss may not reduce the corporation’s current year income below zero. Any excess loss must be carried forward. Compute the corporation’s Pierce’s disease, EZ, TTA, or LAMBRA NOL using form FTB 3805D; form FTB 3805Z; form FTB 3809; or form FTB 3807.

Enter the Pierce’s disease, EZ, TTA, LARZ, or LAMBRA NOL carryover deduction from the corporation’s form FTB 3805D; form FTB 3805Z; form FTB 3809; form FTB 3806; or form FTB 3807 on Form 100S, line 19. Attach a copy of the applicable form to Form 100S.

#### **Line 20 – Disaster loss carryover deduction**

If the S corporation has a disaster loss carryover, enter the total amount from Part III, line 1 of the 2005 FTB 3805Q only if the corporation has income in the current year.

#### **Line 22 – Tax**

S corporations must use a tax rate of 1.5%. Financial S corporations must use the financial tax rate of 3.5%. The tax on line 22 may not be less than the sum of the minimum franchise tax and QSub annual tax(es), if applicable. See General Information B, Tax Rate and Minimum Franchise Tax.

If the S corporation is the parent of a QSub subject to the annual tax and paid the \$800 annual tax on behalf of such QSub, add the total amount of QSub annual tax(es) to the tax on net income or the minimum franchise tax, whichever is applicable, and enter the result on line 22. Use the QSub Information Worksheet on page 39 of this booklet.

**Example 1:** Corporation A, an S corporation, is the parent of three QSubs, B, C, and D. QSub B and C are either incorporated or qualified to do business in California. QSub D is not incorporated, doing business, or qualified to do business in California. Corporation A is subject to the minimum Franchise tax of \$800 and \$1,600 of QSub annual tax for QSub B and C.

**Example 2:** Beta Corporation, an S corporation, is the parent of three QSubs. Only one of the QSubs is qualified and doing business in

California. Beta Corporation reports net income for California tax purposes on line 21 of \$100,000. Tax on net income is \$1,500. On line 22, Beta Corporation will report tax of \$2,300. The \$2,300 includes tax on net income of \$1,500 plus \$800 of QSub annual tax payments for one QSub. Beta corporation is not required to pay the QSub tax on the two QSubs not doing business in California.

#### **Line 23 through Line 25 – Tax credits**

Credits may be used to reduce the California tax liability; however, credits may not be used to reduce the tax on line 22 to an amount less than the sum of the minimum franchise tax plus the QSub annual tax(es), if applicable. Also, the S corporation is allowed to claim only 1/3 of the total credit generated against the 1.5% franchise tax. See General Information AA, Passive Activity Credits, and BB, Tax Credits.

Complete and attach the applicable credit form for each credit claimed on Form 100S. For any carryover credits only, complete form FTB 3540, Credit Carryover Summary. See page 47 for a list of available credits.

Transfer the credit(s) from the respective credit forms to Schedule C (100S) to compute the amount of credit to claim on Form 100S. Then transfer the credit(s) from Schedule C (100S) to Form 100S. Each credit is identified by a code number. To claim one or two credits, enter the credit name, code number, and the amount of the credit on line 23 and line 24. Enter the total of any remaining credits from Schedule C (100S) on line 25. Do not make an entry on line 25 unless line 23 and line 24 are complete.

Attach all credit forms, schedules, and Schedule C (100S) to Form 100S.

#### **Line 28 – Tax from Schedule D (100S)**

S corporations must enter the tax from Schedule D (100S) (included in this booklet). See General Information J, Built-in Gains, for more information.

#### **Line 29 – Excess net passive income tax**

If the corporation has always been an S corporation for California purposes or has no federal excess net passive investment income, the excess net passive investment income tax does not apply. See General Information S, Excess Net Passive Investment Income, for more information.

To determine if the S corporation owes this tax, complete line 1 through line 3 and line 9 of the “Excess Net Passive Income and Income Tax Worksheet” on page 12. If line 2 is greater than line 3 and the S corporation has taxable income, it must pay the tax. Complete a separate schedule using the format of line 1 through line 11 of the worksheet on page 12 to figure the tax. Enter the tax from line 11 of the worksheet on Form 100S, Side 1, line 29. Attach the schedule showing the computation. Reduce each item of passive income passed through to shareholders by its pro-rata share of the tax on line 29. See IRC Section 1366(f)(3) and R&TC Section 23803(b)(2).

R&TC Section 23811(e) provides a deduction for C corporation earnings and profits

attributable to California sources for any taxable year by the amount of a consent dividend paid after the close of the taxable year. The amount of the consent dividend is limited to the difference between the C corporation earnings and profits attributable to California sources and the C corporation earnings and profits for federal purposes.

#### **Line 32 – 2005 Estimated tax payments**

Enter the total amount of estimated tax payments made during the 2005 taxable year on line 32. If the S corporation is the parent of a QSub and made payments for the QSub annual tax, include the total amount of QSub annual tax payment made during 2005 on line 32 along with the total estimated tax payments. See General Information DD, Qualified Subchapter S Subsidiary (QSub), for more information. Be sure to complete the Schedule QS Information Worksheet on page 39 of this booklet and attach it to the return.

#### **Line 33 – 2005 Nonresident or real estate withholding**

If the corporation was withheld upon, enter the 2005 nonresident or real estate withholding credit that was not allocated to the shareholders. (If any of the withholding credit is to be allocated to the shareholders, Form 592 and Form 592-B must be prepared to indicate the flow of the credit to the shareholders. Get the instructions for these forms for more information. If the S corporation is claiming any of the withholding credit on the corporate return, attach a copy of Form 592-B, 593-B, or 594 to the lower half of the front of Form 100S, Side 1.

#### **Line 36 and Line 37 – Tax due or overpayment**

In addition to any amount entered on line 36 or line 37, tax due or overpayment, also include any amounts required to be included from Schedule J, Add-On Taxes or Recapture of Tax Credits. See Schedule J instructions for more information.

#### **Line 38 – Amount to be credited to 2006 estimated tax**

If the corporation chooses to have the overpayment credited to next year’s estimated tax payment, the corporation cannot later request that the overpayment be applied to the prior year to offset any tax due.

#### **Line 39 – Use Tax**

As explained under General Information EE, the S corporation may owe California use tax on purchases from out-of-state sellers (for example, purchases made by telephone, over the Internet, by mail, or in person). If you have questions on whether a purchase is taxable, visit the State Board of Equalization’s Website at [www.boe.ca.gov](http://www.boe.ca.gov), or call their Information Center at (800) 400 7115 or TTY/TDD (800) 735-2929.

The S corporation may report use tax on the S Corporation Franchise or Income Tax Return instead of filing a use tax return with the State Board of Equalization. To report use tax on the S corporation tax return, complete the Use Tax Worksheet on next page.

If the S corporation owes use tax but chooses not to report it on the tax return, the



S corporation must report and pay the tax to the State Board of Equalization. To do so, download a copy of Publication 79-B, California Use Tax, from [www.boe.ca.gov](http://www.boe.ca.gov). The S corporation can also request a copy by calling the State Board of Equalization's Information Center.

Failure to report and pay the use tax due may result in the assessment of penalties.

**Note:** Businesses that have a California seller's permit must continue to report business purchases subject to use tax on their sales and use tax returns.

See General Information EE for more information.

#### Use Tax Worksheet

Round all amounts to the nearest whole dollar.

1. Enter purchases from out-of-state or Internet sellers made without payment of California sales/use tax.  
See worksheet instructions below ..... \$ .....00
2. Enter the decimal equivalent of the applicable sales and use tax rate. See worksheet instructions below .....
3. Multiply line 1 by the tax rate on line 2. Enter result here. \$ .....00
4. Enter any sales or use tax paid to another state for purchases included on line 1. See worksheet instructions below ..... \$ .....00
5. Total Use Tax Due. Subtract line 4 from line 3. Enter the amount here and on Form 100S, line 39. If the amount is less than zero, enter -0-. ..... \$ .....00

#### Use Tax Worksheet, Line 1, Purchases Subject to Use Tax

- Report items that would have been taxable in a California store, such as office equipment and supplies.
- Include handling charges.
- Do not include any other state's sales or use tax paid on the purchases.
- Enter only purchases made during the year that corresponds with the tax return the S corporation is filing.

**Note:** Do not report the following on the S corporation tax return:

- Vehicles, vessels, and trailers that must be registered with the Department of Motor Vehicles.
- Mobile homes or commercial coaches that must be registered annually as required by the Health and Safety Code.
- Vessels documented with the U.S. Coast Guard.
- Aircraft.
- Leases of machinery, equipment, vehicles, and other tangible personal property.

#### Worksheet, Line 2, Sales and Use Tax Rate

- Enter the decimal equivalent of the sales and use tax rate applicable to the place in California where the property is used,

stored, or otherwise consumed. For example, the decimal equivalent of 7.25% is 0.0725, and the decimal equivalent of 7.375% is 0.07375.

- If you do not know the applicable rate, see the table on next page, "Sales and Use Tax Rates by County." If you have questions regarding the use tax rate in effect in your area, please visit the State Board of Equalization's Website at [www.boe.ca.gov](http://www.boe.ca.gov) or call their Information Center at (800) 400-7115 or TTY/TDD (800) 735-2929.

#### Worksheet, Line 4, Credit for Tax Paid to Another State

- This is a credit for tax paid to other states. The S corporation cannot claim a credit greater than the amount of tax that would have been due if the purchase had been made in California. For example, if the corporation paid \$8.00 sales tax to another state for a purchase, and would have paid \$6.00 in California, you can claim a credit of only \$6.00 for that purchase.

#### Sales and Use Tax Rates by County (includes state, local, and district taxes) As of December 31, 2005

County	Rate	County	Rate
Alameda	8.75%	Orange	7.75%
Alpine	7.25%	Placer	7.25%
Amador	7.25%	Plumas	7.25%
Butte	7.25%	Riverside	7.75%
Calaveras	7.25%	Sacramento	7.75%
Colusa	7.25%	San Benito <sup>6</sup>	7.25%
Contra Costa <sup>6</sup>	8.25%	San Bernardino <sup>6</sup>	7.75%
Del Norte	7.25%	San Diego <sup>6</sup>	7.75%
El Dorado <sup>6</sup>	7.25%	San Francisco	8.50%
Fresno <sup>1,6</sup>	7.975%	San Joaquin <sup>6</sup>	7.75%
Glenn	7.25%	San Luis Obispo	7.25%
Humboldt <sup>6</sup>	7.25%	San Mateo	8.25%
Imperial <sup>6</sup>	7.75%	Santa Barbara	7.75%
Inyo	7.75%	Santa Clara	8.25%
Kern	7.25%	Santa Cruz <sup>6</sup>	8.00%
Kings	7.25%	Shasta	7.25%
Lake <sup>6</sup>	7.25%	Sierra	7.25%
Lassen	7.25%	Siskiyou	7.25%
Los Angeles <sup>6</sup>	8.25%	Solano	7.375%
Madera <sup>2</sup>	7.25%	Sonoma <sup>5,6</sup>	7.75%
Marin <sup>3</sup>	7.75%	Stanislaus	7.375%
Mariposa <sup>4</sup>	7.75%	Sutter	7.25%
Mendocino <sup>6</sup>	7.25%	Tehama	7.25%
Merced <sup>6</sup>	7.25%	Trinity	7.25%
Modoc	7.25%	Tulare <sup>6</sup>	7.25%
Mono	7.25%	Tuolumne <sup>6</sup>	7.25%
Monterey <sup>6</sup>	7.25%	Ventura	7.25%
Napa	7.75%	Yolo <sup>6</sup>	7.25%
Nevada <sup>6</sup>	7.375%	Yuba	7.25%

1. The tax rate in the county of Fresno prior to April 1, 2005, was 7.875%.
2. The tax rate in the county of Madera prior to October 1, 2005 was 7.75%.
3. The tax rate in the county of Marin prior to April 1, 2005 was 7.25%.
4. The tax rate in the county of Mariposa prior to April 1, 2005, was 7.25%.
5. The tax rate in the county of Sonoma prior to April 1, 2005, was 7.50%.
6. Many cities in California impose a district tax, which results in a higher sales and use tax rate than in other parts of the county. If you are

reporting an item that was purchased for use in any of the following cities, please use the appropriate tax rates for those areas. The following tax rates apply within the city limits of the listed community.

County	City	Citywide Rate
Contra Costa	Richmond	8.75% (effective 4/01/2005) <sup>a</sup>
El Dorado	Placerville	7.50%
El Dorado	South Lake Tahoe	7.75% (effective 4/01/2005) <sup>b</sup>
Fresno	Clovis	8.275% (effective 4/01/2005) <sup>c</sup>
Humboldt	Trinidad	8.25%
Imperial	Calexico	8.25%
Lake	Clearlake	7.75%
Lake	Lakeport	7.75% (effective 4/01/2005) <sup>d</sup>
Los Angeles	Avalon	8.75%
Mendocino	Fort Bragg	7.75%
Mendocino	Point Arena	7.75%
Mendocino	Ukiah	7.75% (effective 10/01/2005) <sup>e</sup>
Mendocino	Willits	7.75%
Merced	Los Banos	7.75% (effective 4/01/2005) <sup>f</sup>
Monterey	Sand City	7.75% (effective 4/01/2005) <sup>g</sup>
Nevada	Town of Truckee	7.875%
San Benito	San Juan Bautista	8.00% (effective 4/01/2005) <sup>h</sup>
San Bernardino	Montclair	8.00% (effective 4/01/2005) <sup>i</sup>
San Diego	El Cajon	8.25% (effective 4/01/2005) <sup>j</sup>
San Joaquin	Stockton	8.00% (effective 4/01/2005) <sup>k</sup>
Santa Cruz	Capitola	8.25% (effective 4/01/2005) <sup>l</sup>
Santa Cruz	Santa Cruz	8.25%
Sonoma	Sebastopol	8.00% (effective 4/01/2005) <sup>m</sup>
Sonoma	Santa Rosa	8.00% (effective 4/01/2005) <sup>n</sup>
Tulare	Farmersville	7.75% (effective 4/01/2005) <sup>o</sup>
Tulare	Visalia	7.50%
Tuolumne	Sonora	7.75%
Yolo	Davis	7.75%
Yolo	West Sacramento	7.75%
Yolo	Woodland	7.75%

- a) The tax rate in Richmond prior to April 1, 2005, was 8.25%.
- b) The tax rate in South Lake Tahoe prior to April 1, 2005, was 7.25%.
- c) The tax rate in Clovis prior to April 1, 2005, was 8.175%.
- d) The tax rate in Lakeport prior to April 1, 2005, was 7.25%.
- e) The tax rate in Ukiah prior to October 1, 2005, was 7.25%.
- f) The tax rate in Los Banos prior to April 1, 2005, was 7.25%.
- g) The tax rate in Sand City prior to April 1, 2005, was 7.25%.
- h) The tax rate in San Juan Bautista prior to April 1, 2005, was 7.25%.
- i) The tax rate in Montclair prior to April 1, 2005, was 7.75%.
- j) The tax rate in El Cajon prior to April 1, 2005, was 7.75%.

- k) The tax rate in Stockton prior to April 1, 2005, was 7.75%.
- l) The tax rate in Capitola prior to April 1, 2005, was 8.00%.
- m) The tax rate in Sebastopol prior to April 1, 2005, was 7.625%.
- n) The tax rate in Santa Rosa prior to April 1, 2005, was 7.50%.
- o) The tax rate in Farmersville prior to April 1, 2005, was 7.25%.

## Line 40 – Refund

### Direct Deposit of Refund (DDR)

Direct deposit is fast, safe, and convenient. To have the refund directly deposited into the corporation's bank account, enter the account information on Form 100S, Side 2, lines 40a, 40b, and 40c. Please be sure to fill in all the information. **Do not** attach a voided check or deposit slip.

To cancel the DDR, call FTB at (916) 845-0353.

FTB is not responsible when a financial institution rejects a direct deposit. If FTB, the bank, or financial institution rejects the direct deposit due to an error in the routing number or account number, FTB will issue a paper check.

### Line 41 – Penalties and interest

Enter on line 41a the amount of any penalties and interest due.

Complete and attach form FTB 5806, Underpayment of Estimated Tax by Corporations, to the **front** of Form 100S only if Exception B or Exception C is used to compute or eliminate the penalty. Be sure to check the box on line 41b.

## Schedules

### Schedule F

See General Information I, Net Income Computation, for information on net income computation methods.

#### Line 1a-line 6 – Income

Report only income or loss from trade or business activity on line 1a through line 6. Do not report any rental activity or portfolio income or loss on these lines. Rental activity and portfolio income or loss are reported on Form 100S, Side 1, line 7 or line 13; Schedules K (100S); and K-1 (100S). Rental real estate activities are also reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. Attach a copy of federal Form 8825 to Form 100S.

#### Line 7 – Compensation of Officers

If the S corporation's total receipts are \$150,000 or more, complete and attach a schedule showing the compensation of officers. On the schedule, list:

- Name of officer;
- Social security number of officer;
- Percentage of time devoted to the business;
- Percentage of stock owned; and
- Amount of compensation.

Also show the calculation of compensation of officers deducted:

- Total compensation of officers, minus

- Compensation of officers claimed in the cost of goods sold schedule and elsewhere on the return.

#### Line 8 – Salaries and wages

Gain from the exercise of California Qualified Stock Options (CQSOs) issued and exercised after 1996 and before 2002, can be excluded from gross income if the individual's earned income is \$40,000 or less. The exclusion from gross income is subject to the alternative minimum tax and the S corporation is not allowed a deduction for the compensation excluded from the employee's gross income.

#### Line 20 - Other deductions

Do not include the dividend deduction on this line. Instead enter the dividend deduction on Form 100S, Side 1, lines 9 or 10.

## Schedule J

Complete Schedule J on Form 100S, Side 2, if the S corporation has credit amounts to recapture or is required to include installment payments of "add-on" taxes for:

- LIFO recapture resulting from an S corporation election;
- Interest computed under the look-back method for completed long-term contracts;
- Interest on tax attributable to installment sales of certain property or use of the installment method for non-dealer installment obligations; or
- IRC Section 197(f)(9)(B)(ii) election to recognize gain on the disposition of an IRC Section 197 intangible.

Revise the tax due or overpayment on Form 100S, line 36 or line 37, as appropriate, by the amount from Schedule J, line 6.

#### LIFO recapture tax

If the S corporation computed the LIFO recapture tax in the final year as a C corporation, include on Schedule J, line 1, any LIFO installment due this taxable year.

#### Long-term contracts

If the S corporation must compute interest under the look-back method for completed long-term contracts, complete and attach form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, and include the amount of interest the S corporation owes or the amount of interest to be credited or refunded to the S corporation on Schedule J, line 2. Attach form FTB 3834 to Form 100S. If interest is to be credited or refunded, enter as a negative amount.

#### Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots

If the S corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under IRC Section 453(l)(3) (R&TC Section 24667), it must include the interest due on Schedule J, line 3a. For the applicable interest rates, get FTB Pub. 1138, Business Entity Refund/Billing Information. Attach a schedule showing the computation.

#### Interest on tax deferred under the installment method for certain nondealer installment obligations

If an obligation arising from the disposition of property to which IRC Section 453A (R&TC Section 24667) applies is outstanding at the close of the taxable year, the corporation must include the interest due under IRC Section 453A(c) on Schedule J, line 3b. Attach a schedule showing the computation. For the applicable interest rates, get FTB Pub. 1138.

#### IRC Section 197(f)(9)(B)(ii) election

Complete Schedule J, line 4 if the corporation elected to pay tax on the gain from the sale of an intangible under the related person exception to the anti-churning rules.

#### Credit recaptures

Complete Schedule J, line 5, if the S corporation completed the credit recapture portion of:

- FTB 3501, Employer Child Care Program/Contribution Credit;
- FTB 3805Z, Enterprise Zone Deduction and Credit Summary;
- FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary;
- FTB 3808, Manufacturing Enhancement Area Credit Summary; or
- FTB 3809, Targeted Tax Area Deduction and Credit Summary.

Also complete Schedule J, line 5, if the S corporation is subject to recapture of:

- The Farmworker Housing Credits;
- The Joint Strike Fighter Credit for Property Costs;
- The Community Development Financial Institution Deposits Credit; or
- The Solar or Wind Energy System Credit.

## Schedule K and Schedule K-1

### Shareholders' share of income, deductions, credits, etc.

#### Purpose of schedules

Schedule K (100S) is a summary schedule of all the shareholders' shares of the S corporation's income, deductions, credits, etc. Schedule K-1 (100S) shows each shareholder's separate share of pass-through items and adjusted basis. Use federal Schedule K and Schedule K-1 (Form 1120S) as a basis for preparing California Schedule K and Schedule K-1 (100S).

**Note:** Amounts on Schedule K-1 (100S) may not add up to amounts reflected on Form 100S, Side 1, because Side 1 calculates tax at the S corporation level while Schedule K-1 (100S) amounts are calculated using different rules.

Attach one copy of each Schedule K-1 (100S) to the Form 100S filed with the FTB. Keep one copy of each Schedule K-1 (100S) for the S corporation's records, and give each shareholder a copy of Schedule K-1 (100S) on or before the due date of Form 100S.

**Note:** Be sure to give each shareholder a copy of either the Shareholder's Instructions for Schedule K-1 (100S) (included in this booklet) or specific instructions for each item reported on the shareholder's Schedule K-1 (100S).

## Substitute forms

You need approval from the FTB to use a substitute Schedule K-1 (100S). The substitute schedule must include the Shareholder's Instructions for Schedule K-1 (100S) or other prepared specific instructions. For more information, get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms.

## Special reporting requirements for passive activities

If items of income (loss), deduction, or credit from more than one activity are reported on Schedule K-1 (100S), the S corporation must attach a statement to Schedule K-1 (100S) for each activity that is a passive activity to the shareholder. Rental activities are passive activities to all shareholders. Trade or business activities are passive activities to shareholders who do not materially participate in the activity.

The attachment must include all the information explained in the instructions for federal Schedule K-1 (Form 1120S).

## Specific Line Instructions

### Item A through Item E (Schedule K-1 (100S) only)

To ensure correct processing of Schedule K-1 (100S), answer all items that are appropriate.

## Income

### Line 1 – Ordinary income (loss) from trade or business activities

Enter in column (c) any California adjustments to ordinary income that do not need to be separately stated. Include in this column the adjustment to add back the minimum franchise tax or the 1.5% tax deducted for federal purposes.

### Line 2 – Net income (loss) from rental real estate activities

Enter the net income and expenses of any rental real estate activity of the S corporation. If the S corporation has more than one rental real estate activity reported on these lines, attach a separate schedule or use Schedule K-1 (100S), line 23 to list the income or loss from each activity, plus any other information required under the rules for passive activities. Attach form FTB 3801, Passive Activity Loss Limitations, to Form 100S.

### Line 3a, Line 3b, and Line 3c – Net income (loss) from other rental activities (Schedule K (100S) only)

Enter the net income and expenses of other rental activities not listed on line 2 above. If the S corporation has more than one rental activity reported on these lines, attach a separate schedule listing the income or loss from each activity, plus any other information required under the rules for passive activities.

### Line 4a through Line 4f – Portfolio income (loss)

Portfolio income (loss) is any gross income from interest, dividends, annuities, or royalties that is not derived in the ordinary course of business. Portfolio income must be separately accounted for as such. Portfolio income also

includes gains or losses from the sale or other disposition of property (other than an interest in a passive activity) producing portfolio income or held for investment.

### Line 4a, Line 4b, and Line 4c – Interest, dividend, and royalty income

- Enter the amount of interest income from federal Schedule K/K-1 (1120S), box 4.
- Enter the amount of dividend income from federal Schedule K/K-1 (1120S), box 5a and 5b.
- Enter the amount of royalties from federal Schedule K/K-1 (1120S), box 6.

Enter only taxable interest, dividend, and royalty income that is portfolio income.

### Line 4d and Line 4e – Net capital gain (loss)

- Enter the amount of net short-term capital gain (loss) from federal Schedule K/K-1 (1120S), box 7.
- Enter the amount of net long-term capital gain (loss) from federal Schedule K/K-1 (1120S), box 8a.

Enter on line 4d and line 4e the amount of capital gains and losses that is portfolio income (loss). If any of the income (loss) is not portfolio income (loss), include it on line 6.

### Line 4f – Other portfolio income (loss)

Enter the amount of other portfolio income (loss) from federal Schedule K/K-1 (1120S), box 10.

Enter any other portfolio income (loss) not entered on line 4a through line 4e.

### Line 5 – Net gain (loss) under IRC Section 1231

Enter the amount of net Section 1231 gain (loss) from federal Schedule K/K-1 (1120S), box 9.

The amount for line 5 comes from Schedule D-1, Sales of Business Property. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report these gains or losses on line 6.

If the S corporation has more than one activity and the amount on line 5 is a passive activity amount to the shareholder, attach a statement to Schedule K-1 (100S) (or use Schedule K-1 (100S), line 23) to identify to which activity the IRC Section 1231 gain (loss) relates.

### Line 6 – Other income (loss)

Enter the amount of other income (loss) from federal Schedule K/K-1 (1120S), box 10.

Enter any other item of income or loss not included on line 1 through line 5, such as:

- a. Wagering gains and losses. See IRC Section 165(d).
- b. Recovery of tax benefit items. See IRC Section 111.
- c. Any gain or loss where the S corporation was a trader or dealer in IRC Section 1256 contracts or property related to such contracts. See IRC Section 1256(f).
- d. Net gain (loss) from involuntary conversions due to casualty or theft.
- e. Loss(es) from qualified low-income housing projects for shareholders that are qualified investors.

- f. Eligible gain from the sale or exchange of qualified small business stock (defined in R&TC Section 18152.5). Also report on an attachment to Schedule K (100S) and Schedule K-1 (100S) the name of the corporation that issued the stock and the adjusted basis of that stock.

**Note:** The exclusion allowed under R&TC Section 18152.5 for small business stock is not allowed for an S corporation but is allowed for the shareholder.

## Deductions

### Line 7 – Charitable contributions

Enter the amount of charitable contributions from federal Schedule K/K-1 (1120S), box 12.

Enter the total amount of charitable contributions made by the S corporation during its taxable year on Schedule K (100S) and each shareholder's distributive share on Schedule K-1 (100S). On an attachment to each schedule, separately show the dollar amount of contributions subject to each of the 50%, 30%, and 20% of adjusted gross income limits.

A resident shareholder is allowed a deduction for contributions to a qualified organization as provided in IRC Section 170.

### Line 8 – Expense deduction for recovery property

Enter the amount of Section 179 deduction from federal Schedule K/K-1 (1120S), box 11.

The amount of expense deduction for recovery property that can be claimed from all sources will vary depending on the type of property and the year of designation. For more information, see IRC Section 179 and R&TC Sections 17201, 17267.2, 17267.6, and 17268.

### Line 9 – Deductions related to portfolio income (loss)

Enter the amount of deductions related to portfolio income (loss) from federal Schedule K/K-1 (1120S), box 12.

Enter on this line the deductions allocable to portfolio income (loss) other than interest expenses. Generally, these deductions are IRC Section 212 expenses and are subject to IRC Section 212 limitations at the shareholder level. However, interest expense related to portfolio income (loss) is generally investment interest expense and is reported on line 11a.

## Investment Interest

### Line 11a through Line 11b(2)

These lines must be completed whether or not a shareholder is subject to the investment interest rules.

### Line 11a – Interest expense on investment debts

Include on this line interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Therefore, interest expense allocable to portfolio income should be reported on Schedules K and K-1 (100S), line 11a rather than Schedules K and K-1 (100S), line 9. Investment interest



does not include interest expense allocable to a passive activity. A passive activity is a rental activity or a trade or business activity in which the shareholder does not materially participate.

Property held for investment includes a shareholder's interest in a trade or business activity that is not a passive activity to the shareholder and in which the shareholder does not materially participate. An example would be a shareholder's working interest in oil and gas property (i.e., the shareholder's interest is not limited) if the shareholder does not materially participate in the oil and gas activity.

The amount on line 11a will be reflected (after applying the investment interest expense limitations) by individual shareholders on their Schedule CA (540 or 540NR), California Adjustments.

For more information, get form FTB 3526, Investment Interest Expense Deduction.

### **Line 11b(1) and Line 11b(2) – Investment income and expenses**

Enter on line 11b(1) only the investment income included on Schedules K and K-1 (100S), line 4a, line 4b, line 4c, and line 4f. Enter on line 11b(2) only the investment expense included on Schedules K and K-1 (100S), line 9.

If there are items of investment income or expense included in the amounts that are required to be passed through separately to the shareholder on Schedule K-1 (100S), such as net short-term capital gain or loss, net long-term gain or loss and other portfolio gains or losses, give each shareholder a schedule identifying these amounts. See the instructions for federal Form 1120S for more information on portfolio income.

Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment, and other amounts that are gross portfolio income. Investment income and investment expenses do not include any income or expenses from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income.

Get form FTB 3526 for more information.

## **Credits**

### **Line 12a – Low-income housing credit**

R&TC Section 23610.5 provides a credit that may be claimed by owners of residential rental projects providing low-income housing. The credit is generally effective for buildings placed in service after 1986. If the shareholders are eligible to claim the low-income housing credit, attach a copy of form FTB 3521, Low-Income Housing Credit, to Form 100S and to each shareholder's Schedule K-1 (100S).

### **Line 12b – Credits related to rental real estate activities**

Report any information that the shareholder needs to figure credits related to a rental real estate activity other than the low-income housing credit. Attach to each shareholder's Schedule K-1 (100S) a schedule showing the amount to be reported and the form on which the amount should be reported.

### **Line 12c – Credits related to other rental activities**

Use this line to report information that the shareholder needs to figure credits related to a rental activity other than a rental real estate activity. Attach to each shareholder's Schedule K-1 (100S) a schedule showing the amount to be reported and the form on which the amount should be reported.

### **Line 13 – Other credits**

Enter on an attached schedule each shareholder's allocable share of any credit or credit information reported on Schedule C (100S) that is related to a trade or business activity.

The following are examples of credits that may apply to each shareholder:

- Employer child care program/contribution credit (get form FTB 3501);
- Enterprise zone (EZ) hiring & sales or use tax credit (get form FTB 3805Z);
- Local agency military base recovery area (LAMBRA) hiring & sales or use tax credit (get form FTB 3807);
- Manufacturing enhancement area (MEA) hiring credit (get form FTB 3808);
- Targeted tax area (TTA) hiring and sales or use tax credit (get form FTB 3809); or
- Research credit (get form FTB 3523).

## **Adjustments and Tax Preference Items**

### **Line 14a through Line 14e**

Enter the items of income and deductions that enter into each shareholder's computation of adjustments and tax preference items. A shareholder with alternative minimum tax items may be required to file Schedule P (540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations.

Get the instructions for federal Schedules K and K-1 (Form 1120S), Adjustments and Tax Preference Items, line 14a through line 14e, for more information.

## **Other State Taxes**

### **Line 15a through Line 15e**

Subject to certain conditions, shareholders may claim a credit against their individual tax for net income taxes paid by the S corporation to another state that either taxes the corporation as an S corporation or does not recognize S corporation status. For purposes of this credit, net income taxes include the shareholder's share of taxes on, according to, or measured by income. Enter the name of the other state(s), the income reported to the other state(s), and the amount of tax paid. Attach a copy of the return filed with the other state(s).

Residents are taxable on all their pro-rata share of income and generally receive a credit for taxes paid to other states. Nonresidents must use the amounts shown in column (e). See R&TC Sections 18001, 18002, and 18006 for more information.

## **Other**

### **Line 16a through Line 19**

Refer to the instructions for federal Schedules K and K-1 (Form 1120S).

### **Line 20 (Schedule K only)**

Enter total distributions made to shareholders other than dividends reported on Schedule K, line 22. Noncash distributions of appreciated property are valued at fair market value. Refer to the instructions for federal Form 1120S for the ordering rules on distributions.

### **Line 21 (Schedule K only)**

The S corporation may need to report supplemental information separately to each shareholder that is not specifically requested on the Schedule K-1 (100S).

Attach a schedule to the Schedule K showing the computation of those items that must be reported separately to shareholders including any credit recapture reported to shareholders on Schedule K-1 (100S), line 23.

Shareholders may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the S corporation. As a result of legislation enacted in 1996, alternative minimum taxable income shall not include income, adjustments, and items of tax preference related to any trade or business of a qualified taxpayer who has gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from all trades or businesses. The S corporation can provide the shareholder's proportionate interest of aggregate gross receipts on Schedule K-1 (100S), line 23. For purposes of R&TC Section 17062(b)(4), "gross receipts" means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income (within the meaning of subdivision (d) of R&TC Section 25120). "Proportionate interest" includes an interest in a pass-through entity. See R&TC Section 17062, Instructions for federal Schedule K (Form 1020S), line 21, and instructions for Schedule K-1 (100S) for more information.

The gain or loss on property subject to the IRC Section 179 expense deduction recapture should be reported on the Schedule K and Schedule K-1 as supplemental information as instructed on the federal Form 4797.

The S corporation must provide all of the following information with respect to a disposition of business property if an IRC Section 179 expense deduction was claimed in prior years:

- Description of the property
- Date the property was acquired and placed in service.

- Date of the sale or other disposition of the property.
- The gross sales price or amount realized.
- The cost or other basis plus the expense of sale (reduced as explained in the instructions for form 4797, line 21).
- The depreciation allowed or allowable, determined as described in the instructions for Form 4797, line 22, but excluding the Section 179 Expense Deduction.
- The IRC Section 179 Expense Deduction (if any) passed through for the property and the S corporation's tax year(s) in which the amount was passed through.
- If the disposition is due to a casualty or theft, a statement indicating so, and any additional information needed by the shareholder.
- If the sale was an installment sale made during the S corporation's tax year, any information the shareholder needs to complete Form 6252, Installment Sale of Income. The S corporation also must separately report the shareholder's share of all payments received for the property in the following tax years. (Installment payments received for sales made in prior tax years should be reported in the same manner used in the prior tax years.) See instructions for Form 6252 for details.

#### **Line 22 (Schedule K only)**

Report the distribution amount made out of prior C corporation years accumulated earnings and profits (E&P). The corporation should issue a federal Form 1099-DIV, Dividends and Distributions, to each of the shareholders reporting their proportionate distribution amounts.

#### **Line 20 (Schedule K-1 only)**

Report the distribution amount for each shareholder that was paid out of prior C corporation years accumulated earnings and profits (E&P). Each shareholder should receive a federal Form 1099-DIV reporting the proportionate distribution amount shown on Schedule K-1 (100S), line 20.

#### **Line 21 (Schedule K-1 only)**

Report the distribution amount for each shareholder for distributions other than dividends reported on Schedule K-1 (100S), line 20. Noncash distributions of appreciated property are valued at fair market value. Refer to the instructions for federal Form 1120S for the ordering rules on distributions.

#### **Line 22 (Schedule K-1 only)**

Report the amount of loan repayments the S corporation has made to each shareholder who has loaned the S corporation money.

### **Supplemental Information**

The S corporation will provide supplemental information required to be reported to each shareholder on this line.

#### **Line 23 (Schedule K-1 only)**

The gain or loss on property subject to the IRC Section 179 expense deduction recapture should be reported on the Schedule K and Schedule K-1 as supplemental information as instructed on the federal Form 4797.

The S corporation must provide all of the following information with respect to a disposition of business property if an IRC Section 179 Expense Deduction was claimed in prior years:

- Date the property was acquired and placed in service.
- Date of the sale or other disposition of the property.
- The shareholder's share of the gross sales price or amount realized.
- The shareholder's share of the cost or other basis plus the expense of sale (reduced as explained in the instructions for Form 4797, line 21).
- The shareholder's share of the depreciation allowed or allowable, determined as described in the instructions for Form 4797, line 22, but excluding the Section 179 Expense Deduction.
- The shareholder's share of the IRC Section 179 Expense Deduction (if any) passed through for the property and the S corporation's tax year(s) in which the amount was passed through.
- If the disposition is due to a casualty or theft, a statement indicating so, and any additional information needed by the shareholder.
- If the sale was an installment sale made during the S corporation's tax year, any information the shareholder needs to complete Form 6252, Installment Sale of Income. The S corporation also must separately report the shareholder's share of all payments received for the property in the following tax years. (Installment payments received for sales made in prior tax years should be reported in the same manner used in the prior tax years.) See instructions for Form 6252 for details.

The S corporation should provide an amount showing each shareholder's proportionate interest in the S corporation's aggregate gross receipts, less returns and allowances, on Schedule K-1 (100S), line 23. See the instructions for Schedule K (100S), line 21.

Report the credit recapture amount on line 23 if the S corporation completed the credit recapture portion of form:

- FTB 3501, Employer Child Care Program/Contribution Credit; or
- FTB 3805Z, Enterprise Zone Deduction and Credit Summary; or
- FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary; or
- FTB 3809, Targeted Tax Area Deduction and Credit Summary; or
- FTB 3808, Manufacturing Enhancement Area Credit Summary; or
- FTB 3534, Joint Strike Fighter Credits; or
- FTB 3508, Solar or Wind Energy System Credit.

Also report the credit recapture amount on line 23 if the corporation is subject to recapture of:

- The Farmworker Housing Credits; or
- The Community Development Financial Institution Deposits Credit.

Also show on line 23 a statement showing each of the following:

1. Each shareholder's share of business income apportioned to an EZ, LAMBRA, MEA, or TTA; and
2. Each shareholder's pro-rata share of business capital gain or loss included in 1 above.

#### **Table 1 and Table 2**

**Table 1** – Enter the shareholder's pro-rata share of nonbusiness income from intangibles. Because the source of this income must be determined at the shareholder level, do not enter income in this category in column (e). If the income (loss) for an income item is a mixture of income (loss) in different subclasses (for example, short and long-term capital gain), attach a supplemental schedule providing a breakdown of income in each subclass.

Nonbusiness income is all income other than business income. See definition of business income below.

**Table 2** – In Part A, enter the shareholder's pro-rata share of the S corporation's business income. The shareholder will then add that income to its own business income and apportion the combined business income.

Business income is defined by Cal. Code Regs., tit. 18 section 25120(a) as income arising in the regular course of the taxpayer's trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitutes integral parts of the taxpayer's regular trade or business.

In Part B, enter the shareholder's pro-rata share of nonbusiness income from real and tangible property that is located in California. Because this income has a California source, this income should also be included on the appropriate line in column (e).

In Part C, enter the shareholder's pro-rata share of the S corporation's payroll, property, and sales factors.

### **Schedule L**

If the corporation's total receipts (see top of page 48 for the definition of total receipts) for the taxable year **and** total assets at the end of the taxable year are less than \$250,000, the corporation is not required to complete Schedule L and Schedule M-1. However, this information must be available in the future upon request.

### **Schedule M-1**

Schedule M-1 is used to reconcile the difference between book and tax accounting for an income or expense item. If the corporation's total receipts (see top of page 48 for the definition of total receipts) for the taxable year **and** total assets at the end of the taxable year are less than \$250,000, the corporation is not required to complete Schedule L and Schedule M-1. However, this information must be available in the future upon request.

To reconcile the S corporation's income (loss) per books with the income (loss) per the California return, adjustments consistent with California income and franchise tax law must be made to the book income and expenses to compute the California income (loss) on Schedule M-1, line 8. These adjustments will convert book income to the total California income (loss) reflected on line 23, col. (d) of Schedule K.

## Schedule M-2

The computation of the California Accumulated Adjustments Account (AAA) and Other Adjustments Account (OAA) is similar to the federal computation applying California amounts. Get the instructions for federal Form 1120S and IRC Section 1368 for additional information.

**Column (a)** – The AAA is an account of the S corporation that generally reflects the accumulated undistributed net income of the corporation for the corporation's post-1986 years. S corporations with accumulated E&P from C corporation years must maintain the AAA to determine the tax effect of distributions during S corporation years and the post-termination transition period. An S corporation without accumulated E&P does not need to maintain the AAA in order to determine the tax effect of distributions. However, if an S corporation without accumulated E&P engages in certain transactions to which IRC Section 381(a) applies, such as a merger into an S corporation with accumulated E&P, the S corporation must be able to calculate its AAA at the time of the merger for purposes of determining the tax effect of post-merger distributions. Therefore, it is recommended that all S corporations maintain the AAA.

At the end of the taxable year, the AAA is determined by taking into account all items of income, loss, and deductions for the taxable year (including nondeductible losses and expenses that are not capitalized but excluding certain exempt income and state taxes attributable to C corporation years). After the year-end income and expense adjustments are made, the account is reduced by distributions made during the taxable year. The AAA should be reduced by the California built-in gains tax amount and the minimum franchise tax.

**Note:** The amount on Form 100S, Side 1, line 2, should be included as an other addition on Schedule M-2, line 3, and as an other reduction on Schedule M-2, line 5. Also include any other adjustments to arrive at California income.

**Note:** The AAA may have a negative balance at year-end as a result of losses or deductions from the S corporation.

**Column (b)** – The other adjustments account is adjusted for tax-exempt income (and related expenses) of the S corporation. After adjusting for tax-exempt income, the account is reduced for any distributions made during the year.

**Column (c)** – Other retained earnings include appropriated and unappropriated retained earnings accumulated in prior years when the

S corporation was a C corporation. Line 1, column (c) for the first S corporation return will be the sum of the ending balances of appropriated and unappropriated retained earnings for the previous year.

### Distributions

Generally, property distributions (including cash) are applied in the following order to reduce accounts of the S corporation that are used to compute the tax effect of distributions made by the S corporation to its shareholders:

1. Reduce the AAA determined without regard to any net negative adjustment for the taxable year (but not below zero). If distributions during the taxable year exceed the AAA at the close of the taxable year determined without regard to any net negative adjustment for the taxable year, the AAA is allocated pro-rata to each distribution made during the taxable year. See IRC Section 1368(c). The term "net negative adjustment" means the excess, if any, of the reductions in the AAA for the taxable year (other than distributions) over the increases in the AAA for the taxable year.
2. Reduce accumulated E&P. Generally, the S corporation has accumulated E&P only if it has not distributed E&P accumulated in prior years when the S corporation was a C corporation, IRC Section 1361(a)(2), or when the S corporation merged with another corporation that has C corporation accumulated E&P. The only adjustments that can be made to the accumulated E&P of an S corporation are:
  - a. Reductions for dividend distributions; and
  - b. Adjustments for redemptions, liquidations, reorganizations, etc.
3. Reduce the OAA.
4. Reduce any remaining shareholders' equity account.

**Note:** Shareholders' previously taxed income (PTI) Column (c), federal Form 1120S, Schedule M-2, 1120S — California S corporations will **never** have undistributed PTI. The federal code section that created PTI was removed from the IRC before California incorporated the federal S corporation provisions into the R&TC.

### Elections relating to the order of distributions

The corporation may modify the ordering rules by making one or more of the following elections:

- Election to distribute accumulated E&P first. If the corporation has accumulated E&P and wants to distribute E&P before making distributions from the AAA, it may elect to do so with the consent of all its affected shareholders – IRC Section 1368(e)(3)(B). This election is irrevocable and applies only for the tax year for which it is made. For more information regarding this election, see "Statement regarding elections" on this page.
- Election to make a deemed dividend. If the corporation wants to distribute all or part of its C corporation accumulated E&P through a deemed dividend, it may elect to

do so with the consent of all its affected shareholders – IRC Section 1368(e)(3)(B). Under this section, the corporation will be treated as also having made the election to distribute E&P first. The amount of the deemed dividend cannot exceed the accumulated E&P at the end of the taxable year reduced by any actual distributions of accumulated E&P made during the taxable year. A deemed dividend is treated as if it were a pro-rata distribution of money to the shareholders, received by the shareholders, and immediately contributed back to the corporation all on the last day of the tax year. This election is irrevocable and applies only for the tax year for which it is made.

### Statement regarding elections

To make any elections relating to the order of distribution, the corporation must attach a statement to a timely filed original Form 100S or amended Form 100S for the year in which the election is made. The corporation must identify the election it is making and state that each shareholder consents to the election. A corporate officer must sign the statement under penalties of perjury on behalf of the corporation. The statement of election to make a deemed dividend must include the amount of the deemed dividend distributed to each shareholder.

When making either of the elections, the corporation must prepare copies of federal Form 1099-DIV for shareholders to report this dividend as taxable income.

**Note:** The corporation may file the election for California purposes only. It is not necessary for the corporation to have the same election for federal purposes in order to make a California election. However, regardless of whether or not the corporation makes the same election on the federal return, the corporation must attach a separate election statement to the California return.

### C corporation E&P

Check the box on Schedule M-2, below line 9, if the S corporation was a C corporation in a prior year(s) and has C corporation E&P at the end of the taxable year. For this purpose, C corporation E&P means the remaining balance of E&P of any S corporation for any taxable year when it was not an S corporation. If the S corporation has C corporation E&P, it may be liable for excess net passive income tax and the distributions to shareholders may have different tax consequences for federal and California purposes. See instructions for Form 100S, Side 1, line 28 and line 29, for details on these taxes.



**2005****California S Corporation  
Franchise or Income Tax Return****100S**

For calendar year 2005 or fiscal year beginning month _____ day _____ year 2005, and ending month _____ day _____ year 20 _____.			
California corporation number _____	Federal employer identification number (FEIN) _____	Check if corporation has: Refund on line 40 <input type="checkbox"/>	
		or	Amount due on line 42 <input type="checkbox"/>
Corporation name _____			
Address including Suite or Room no. _____			PMB no. _____
City _____		State _____	ZIP Code _____
<b>Schedule Q Questions:</b>			
<b>A</b> Final tax return? <input type="checkbox"/> Dissolved <input type="checkbox"/> Surrendered (withdrawn) <input type="checkbox"/> Merged/Reorganized <input type="checkbox"/> IRC Section 338 sale <input type="checkbox"/> QSub election enter date ● _____			

*(continued on Side 2)*

<b>State Adjustments</b>	1 Ordinary income (loss) from trade or business activities from Schedule F (Form 100S, Side 3), line 22 or federal Form 1120S, line 21. If Schedule F (Form 100S, Side 3) was not completed, attach federal Form 1120S, page 1, and supporting schedules .....	● 1		
	2 Foreign or domestic tax based on income or profits and California franchise or income tax deducted .....	● 2		
	3 Interest on government obligations .....	● 3		
	4 Net capital gain from Schedule D (100S), Section A & Section B. Attach Schedule D (100S). See instructions .....	● 4		
	5 Depreciation and amortization adjustments. Attach Schedule B (100S) .....	● 5		
	6 Portfolio income .....	● 6		
	7 Other additions. Attach schedule(s) .....	● 7		
	8 Total. Add line 1 through line 7 .....	● 8		
	9 Dividends received deduction. Attach Schedule H (100S) .....	● 9		
	10 Water's-edge dividend deduction. Attach Schedule H (100S) .....	● 10		
	11 Contributions. See instructions .....	● 11		
	12 EZ, LAMBRA, or TTA business expense and EZ net interest deduction .....	● 12		
	13 Other deductions. Attach schedule(s) .....	● 13		
	14 Total. Add line 9 through line 13 .....	● 14		
	15 Net income (loss) after state adjustments. Subtract line 14 from line 8 .....	● 15		
<b>Calif. Net Income</b>	16 Net income (loss) for state purposes. Use Schedule R if apportioning income .....	● 16		
	17 R&TC Section 23802(e) deduction. See instructions .....	● 17		
	18 Net operating loss carryover deduction. See instructions .....	● 18		
	19 Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover deduction. See instructions .....	● 19		
	20 Disaster loss carryover deduction. See instructions .....	● 20		
	21 Net income for tax purposes. Combine line 17 through line 20. Subtract the result from line 16 .....	● 21		
<b>Taxes</b>	22 Tax. _____% x line 21 (at least minimum franchise tax plus QSub annual tax(es), if applicable). See instructions .....	■ 22		
	23 Credit name _____ code no. _____ amount <span style="float: right;">▶ 23</span>			
	24 Credit name _____ code no. _____ amount <span style="float: right;">▶ 24</span>			
	25 To claim more than two credits, see instructions <span style="float: right;">● 25</span>			
	26 Add line 23 through line 25 .....	■ 26		
	27 <b>Balance.</b> Subtract line 26 from line 22 (not less than minimum franchise tax plus QSub annual tax(es), if applicable) .....	■ 27		
	28 Tax from Schedule D (100S). Attach Schedule D (100S). See instructions .....	■ 28		
	29 Excess net passive income tax. See instructions .....	■ 29		
	30 Total tax. Add line 27 through line 29 .....	■ 30		
	<b>Payments</b>	31 Overpayment from prior year allowed as a credit .....	■ 31	
32 <b>2005 Estimated tax payments/QSub payments.</b> See instructions .....		■ 32		
33 2005 Nonresident or real estate withholding. See instructions .....		■ 33		
34 Amount paid with extension of time to file tax return .....		■ 34		
35 Total payments. Add line 31 through line 34 .....		■ 35		

Refund or Amount Due	<b>36 Franchise or income tax due.</b> If line 30 is more than line 35, subtract line 35 from line 30. Go to line 39 .....	<b>36</b>		
	<b>37 Overpayment.</b> If line 35 is more than line 30, subtract line 30 from line 35 .....	<b>37</b>		
	<b>38</b> Amount of line 37 to be credited to 2006 estimated tax .....	<b>38</b>		
	<b>39</b> Use Tax. See instructions .....	<b>39</b>		<b>00</b>
	<b>40 Refund.</b> If the sum of line 38 and line 39 is less than 37, then subtract the result from line 37. .... See instructions to have the refund directly deposited. <b>a</b> Routing number .....	<b>40a</b>		
	<b>b</b> Type: Checking <input type="checkbox"/> Savings <input type="checkbox"/> <b>c</b> Account number .....	<b>40c</b>		
	<b>41 a</b> Penalties and interest. <b>b</b> <input type="checkbox"/> Check if estimate penalty computed using Exception B or C. See instructions .....	<b>41a</b>		
	<b>42 Total amount due.</b> Add line 36, line 38, line 39, and line 41a, then subtract line 37 from the result .....	<b>42</b>		

### Schedule Q Questions (continued from Side 1)

<p><b>B</b> Did this S corporation have a change in control or ownership, or acquire ownership or control of any other legal entity this year? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><b>C</b> Principal business activity code. (Do not leave blank): <input type="text"/> Business activity <input type="text"/> Product or service <input type="text"/></p> <p><b>D</b> Is this corporation filing on a water's-edge basis pursuant to R&amp;TC Sections 25110 and 25113 for the current taxable year? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><b>E</b> Does this tax return include Qualified Subchapter S Subsidiaries? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><b>F</b> Date incorporated: <input type="text"/> Where: <input type="text"/> State <input type="text"/> Country <input type="text"/></p> <p><b>G</b> Maximum number of shareholders in the corporation at any time during the year: <input type="text"/></p> <p><b>H</b> Date business began in California or date income was first derived from California sources: <input type="text"/></p>	<p><b>I</b> Is the corporation under audit by the IRS or has it been audited in a prior year? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><b>J</b> Effective date of federal S election: <input type="text"/></p> <p><b>L</b> Accounting method: <input type="checkbox"/> (1) Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other</p> <p><b>M</b> Location of principal accounting records: <input type="text"/></p> <p><b>N</b> "Doing business as" name: <input type="text"/></p> <p><b>O</b> Have all required information returns (e.g., federal Form 1099, 8300, etc.) been filed with the Franchise Tax Board? <input type="checkbox"/> N/A <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><b>P</b> Is this corporation apportioning income to California using Schedule R? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><b>Q</b> Has the S corporation included a Reportable Transaction, Listed Transaction or Registered Tax Shelter within this return? (See instructions for definitions) <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," complete and attach Form 8886 for each such transaction.</p>
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### Schedule J Add-On Taxes or Recapture of Tax Credits. See instructions.

<b>1</b> LIFO recapture due to S corporation election (IRC Sec. 1363(d) deferral: \$ <input type="text"/> ) .....	<b>1</b>		
<b>2</b> Interest computed under the look-back method for completed long-term contracts (attach form FTB 3834) .....	<b>2</b>		
<b>3</b> Interest on tax attributable to installment: <b>a</b> ) Sales of certain timeshares and residential lots .....	<b>3a</b>		
<b>b</b> ) Method for nondealer installment obligations .....	<b>3b</b>		
<b>4</b> IRC Section 197(f)(9)(B)(ii) election .....	<b>4</b>		
<b>5</b> Credit recapture name: .....	<b>5</b>		
<b>6</b> Combine line 1 through line 5. Revise the amount on line 36 or line 37 above, whichever applies, by this amount. Write "Schedule J" to the left of line 36 or line 37 .....	<b>6</b>		

Please Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
	Signature of officer <input type="text"/>	Title <input type="text"/>	Date <input type="text"/>
Paid Preparer's Use Only	Preparer's signature <input type="text"/>	Date <input type="text"/>	Check if self-employed <input type="checkbox"/>
	Firm's name (or yours, if self-employed) and address <input type="text"/>		
	<input type="checkbox"/> Telephone <input type="text"/> <input type="checkbox"/> Preparer's SSN/PTIN <input type="text"/> <input type="checkbox"/> FEIN <input type="text"/> <input type="checkbox"/> Telephone <input type="text"/>		

**Schedule F Computation of Trade or Business Income.** See instructions.

Income	1 a) Gross receipts or sales _____		
	b) Less returns and allowances _____ c) Balance .....	1c	
	2 Cost of goods sold from Schedule V, line 8 .....	2	
	3 Gross profit. Subtract line 2 from line 1c .....	3	
	4 Net gain (loss). Attach schedule .....	4	
	5 Other income (loss). Attach schedule .....	5	
6 <b>Total income (loss).</b> Combine line 3 through line 5 .....	6		
Deductions	7 Compensation of officers. Attach schedule. See instructions .....	7	
	8 Salaries and wages .....	8	
	9 Repairs .....	9	
	10 Bad debts .....	10	
	11 Rents .....	11	
	12 Taxes .....	12	
	13 Interest .....	13	
	14 a) Depreciation _____		
	b) Less depreciation reported elsewhere on return _____ c) Balance .....	14c	
	15 Depletion .....	15	
	16 Advertising .....	16	
	17 Pension, profit-sharing plans, etc. ....	17	
	18 Employee benefit programs .....	18	
	19 a) Total travel and entertainment _____		
	b) Deductible amount .....	19b	
	20 Other deductions. Attach schedule .....	20	
21 <b>Total deductions.</b> Add line 7 through line 20 .....	21		
22 <b>Ordinary income (loss) from trade or business.</b> Subtract line 21 from line 6. Enter here and on Side 1, line 1 .....	22		

The corporation may not be required to complete Schedules L and M-1. See Schedule L and M-1 instructions for reporting requirements.

**Schedule L Balance Sheets**

	Beginning of taxable year		End of taxable year	
	(a)	(b)	(c)	(d)
<b>Assets</b>				
1 Cash .....				
2 a Trade notes and accounts receivable .....				
b Less allowance for bad debts .....	( )		( )	
3 Inventories .....				•
4 Federal and state government obligations .....				
5 Other current assets. Attach schedule(s) .....				•
6 Loans to shareholders. Attach schedule(s) .....				•
7 Mortgage and real estate loans .....				•
8 Other investments. Attach schedule(s) .....				
9 a Buildings and other fixed depreciable assets .....				
b Less accumulated depreciation .....	( )		( )	•
10 a Depletable assets .....				
b Less accumulated depletion .....	( )		( )	
11 Land (net of any amortization) .....				•
12 a Intangible assets (amortizable only) .....				
b Less accumulated amortization .....	( )		( )	
13 Other assets. Attach schedule(s) .....				
14 <b>Total assets.</b> .....		•		•
<b>Liabilities and shareholders' equity</b>				
15 Accounts payable .....				
16 Mortgages, notes, bonds payable in less than 1 year .....				
17 Other current liabilities. Attach schedule(s) .....				
18 Loans from shareholders. Attach schedule(s) .....				•
19 Mortgages, notes, bonds payable in 1 year or more .....				•
20 Other liabilities. Attach schedule(s) .....				
21 Capital stock .....		•		•
22 Paid-in or capital surplus .....		•		•
23 Retained earnings .....		•		•
24 Adjustments to shareholders' equity. Attach schedule(s) .....				
25 Less cost of treasury stock .....		( )		( )
26 <b>Total liabilities and shareholders' equity</b> .....				



**Schedule M-1 Reconciliation of income (loss) per books with income (loss) per return.**

<b>1</b> Net income per books .....		<b>5</b> Income recorded on books this year not included on Schedule K, line 1 through line 6 (itemize) <b>a</b> Tax-exempt interest \$ .....	
<b>2</b> Income included on Schedule K, line 1 through line 6, not recorded on books this year (itemize) .....			
<b>3</b> Expenses recorded on books this year not included on Schedule K, line 1 through line 11a and line 16a (itemize) <b>a</b> Depreciation ... \$ .....		<b>6</b> Deductions included on Schedule K, lines 1 through 11 and line 16a, not charged against book income this year (itemize) <b>a</b> Depreciation \$ .....	
<b>b</b> State taxes ..... \$ .....		<b>b</b> State tax refunds \$ .....	
<b>c</b> Travel and entertainment .. \$ .....			
<b>4</b> Total. Add line 1 through line 3 .....		<b>7</b> Total. Add line 5 and line 6 .....	
		<b>8</b> Income (loss) (Schedule K, line 23, col. d). Line 4 less line 7. ....	

**Schedule M-2 CA accumulated adjustments account, other adjustments account, and other retained earnings.** See instructions.**Important: Use California figures and federal procedures.**

	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Other retained earnings (see instructions)
<b>1</b> Balance at beginning of year .....			
<b>2</b> Ordinary income from Form 100S, Side 1, line 1 .....			
<b>3</b> Other additions .....			
<b>4</b> Loss from Form 100S, Side 1, line 1 .....	( )		
<b>5</b> Other reductions .....	( )	( )	( )
<b>6</b> Combine line 1 through line 5 .....			
<b>7</b> Distributions other than dividend distributions .....			
<b>8</b> Balance at end of year. Subtract line 7 from line 6 .....			
<b>9</b> Retained earnings at end of year. Add line 8, column (a) through column (c) .....			
● <input type="checkbox"/> If the corp. has C corp. E&P at the end of the taxable year, check the box and enter the amount. See instructions .....			

**Schedule V Cost of Goods Sold**

<b>1</b> Inventory at beginning of year .....		
<b>2</b> Purchases .....		
<b>3</b> Cost of labor .....		
<b>4</b> Other IRC Sec. 263A costs. Attach schedule .....		
<b>5</b> Other costs. Attach schedule .....		
<b>6</b> Total. Add line 1 through line 5 .....		
<b>7</b> Inventory at end of year .....		
<b>8</b> Cost of goods sold. Subtract line 7 from line 6 .....		

Was there any substantial change in the manner of determining quantities, costs, or valuations between opening and closing inventory? ..... ☐ Yes ☐ No  
If "Yes," attach an explanation. Enter California seller's permit number, if any ► ..... Method of inventory valuation .....

Check if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970 ..... ● ☐

If the LIFO inventory method was used for this taxable year, enter the amount of closing inventory computed under LIFO ..... ● .....

**Schedule K S Corporation Shareholders' Shares of Income, Deductions, Credits, etc.**

	(a) Pro-rata share items	(b) Amount from federal Schedule K (1120S)	(c) California adjustment	(d) Total amount using California law. Combine (b) and (c) where applicable	
Income (Loss)	1 Ordinary income (loss) from trade or business activities .....			●	
	2 Net income (loss) from rental real estate activities. Attach federal Form 8825 .....			●	
	3 a Gross income from other rental activities .....				
	b Expenses from other rental activities. Attach schedule .....				
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a .....			●	
	4 Portfolio income (loss):				
	a Interest .....			●	
	b Dividends .....			●	
	c Royalties .....			●	
	d Net short-term capital gain (loss). Attach schedule D (100S) .....			●	
	e Net long-term capital gain (loss). Attach Schedule D (100S) .....			●	
f Other portfolio income (loss). Attach schedule .....			●		
5 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft)			●		
6 Other income (loss). Attach schedule .....			●		
Deductions	7 Charitable contributions .....			●	
	8 Expense deduction for recovery property (R&TC Section 17267.2, Section 17267.6, Section 17268, and IRC Section 179). Attach Schedule B (100S) .....				
	9 Deductions related to portfolio income (loss). Attach schedule .....			●	
	10 Other deductions. Attach schedule .....				
Investment Interest	11 a Interest expense on investment debts .....			●	
	b (1) Investment income included on line 4a, line 4b, line 4c, and line 4f (2) Investment expenses included on line 9 above .....				
Credits	12 a Low-income housing credit. See instructions. Attach schedule .....			●	
	b Credits related to rental real estate activities other than on line 12(a) Attach schedule .....			●	
	c Credits related to other rental activities. See instructions. Attach schedule .....			●	
	13 Other credits. Attach schedule .....			●	
Adjustments and Tax Preference Items	14 a Depreciation adjustment on property placed in service after 12/31/86 ..				
	b Adjusted gain or loss. See instructions .....				
	c Depletion (other than oil and gas) .....				
	d (1) Gross income from oil, gas, and geothermal properties .....				
	(2) Deductions allocable to oil, gas, and geothermal properties .....				
e Other adjustments and tax preference items. Attach schedule .....					
Other State Taxes	15 a Type of income .....				
	b Name of state .....				
	c Total gross income from sources outside California. Attach schedule ..				
	d Total applicable deductions and losses. Attach schedule .....				
	e Total other state taxes. Check one: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued .....			●	
Other	16 a Total expenditures to which an IRC Section 59(e) election may apply ...				
	b Type of expenditures .....				
	17 Tax-exempt interest income .....				
	18 Other tax-exempt income .....			●	
	19 Nondeductible expenses .....				
	20 Total property distributions (including cash) other than dividend distributions reported on line 22 below .....			●	
	21 Other items and amounts not included in line 1 through line 20 above that are required to be reported separately to shareholders. Attach schedule .....			●	
	22 Total dividend distributions paid from accumulated earnings and profits ..			●	
	23 Income (loss) (required only if Schedule M-1 must be completed). Combine line 1, line 2, and line 3c through line 6. From the result, subtract the sum of line 7 through line 11a and line 16a .....			●	

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**2005 S Corporation Depreciation and Amortization****B (100S)**

For use by S corporations only. Attach to Form 100S.

Corporation name as shown on Form 100S

California corporation number

**Part I Depreciation.** Use additional sheet(s) if necessary.**1** Enter federal depreciation from federal Form 4562, line 22.**Note:** IRC Section 179 expense deduction is not included on this line. See federal Form 4562 instructions**1****2** California depreciation:

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Cost or other basis	(d) Depreciation allowed or allowable in earlier years	(e) Method of figuring dep.	(f) Life or rate	(g) Depreciation for this year

**3** Add the amounts on line 2, column (g)**3****4** Subtract line 3 from line 1. Enter here and on the applicable line of Schedule K (100S)**4****5** Enter IRC Section 179 expense deduction here and on Form 100S, Side 1, line 13. Do not enter more than \$25,000**5****Part II Amortization.** Use additional sheet(s) if necessary.**1** Enter federal amortization from federal Form 4562, line 44**1****2** California amortization:

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Cost or other basis	(d) Amortization allowed or allowable in earlier years	(e) R&TC section	(f) Period or percentage	(g) Amortization for this year

**3** Add the amounts on line 2, column (g)**3****4** California amortization adjustment. Subtract line 3 from line 1. Enter here and on the applicable line of Schedule K (100S)**4****Part III Depreciation and Amortization Adjustment**

Combine the amounts on Part I, line 4 and Part II, line 4. Enter here and on Form 100S, Side 1, line 5

**2005 S Corporation Tax Credits****C (100S)**See instructions for Form 100S, General Information Z, AA, and BB.  
Be sure to complete and attach all supporting credit forms.

	(a) Credit amount limited to 1/3 of total	(b) Carryover from prior year	(c) Credit used this year – not more than (a) + (b)	(d) Tax balance	(e) Credit carryover to 2006
<b>1</b> Regular tax from Form 100S, Side 1, line 22					
<b>2</b> Minimum franchise tax plus QSub annual tax(es) if applicable					
<b>3</b> Subtract line 2 from line 1. If zero or less, enter -0-					
<b>4</b> Code: _____ Credit name: _____					
<b>5</b> Code: _____ Credit name: _____					
<b>6</b> Code: _____ Credit name: _____					
<b>7</b> Code: _____ Credit name: _____					
<b>8</b> Code: _____ Credit name: _____					
<b>9</b> Code: _____ Credit name: _____					
<b>10</b> Code: _____ Credit name: _____					
To claim more than seven credits, attach schedule.					
<b>11</b> Enter the credit amounts on Form 100S, Side 1, line 23, and line 24. If more than two credits, enter the total of any remaining credits on Form 100S, Side 1, line 25					

**2005****S Corporation****Capital Gains and Losses and Built-In Gains****D (100S)**

Corporation name as shown on Form 100S

California corporation number

**SECTION A – 8.84% Tax on Built-In Gains****Part I Short-Term Capital Gains and Losses – Assets Held One Year or Less.** Use additional sheet(s) if necessary.

(a) Description of property (Example: 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Cost of other basis plus expense of sale	(f) Gain (loss) (d) less (e)
<b>1</b>					
<b>2</b> Short-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824. See instructions . . . . .				<b>2</b>	
<b>3 a</b> Net short-term capital gain (loss). Combine line 1, column (f) and line 2 . . . . .				<b>3a</b>	
<b>b</b> Tax on short-term capital gain(s) included on line 12 below . . . . .				<b>3b</b>	
<b>c</b> Subtract line 3b from line 3a. Enter this amount on Form 100S, Schedule K, column (d), line 4d or line 6 . . . . .				<b>3c</b>	

**Part II Long-Term Capital Gains and Losses – Assets Held More Than One Year.** Use additional sheet(s) if necessary.

<b>4</b>					
<b>5</b> Long-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824. See instructions . . . . .				<b>5</b>	
<b>6 a</b> Net long-term capital gain (loss). Combine line 4, column (f) and line 5 . . . . .				<b>6a</b>	
<b>b</b> Tax on long-term capital gain(s) included on line 12 below . . . . .				<b>6b</b>	
<b>c</b> Subtract line 6b from line 6a. Enter this amount on Form 100S, Schedule K, column (d), line 4e or line 6 . . . . .				<b>6c</b>	

**Part III Tax on Built-In Gains.** See instructions before completing this part.

<b>7</b> Excess of recognized built-in gains over recognized built-in losses attributable to California. Attach computation schedule . . . . .	<b>7</b>	
<b>8</b> Taxable income. See the instructions for federal Schedule D (Form 1120S). Use California amounts . . . . .	<b>8</b>	
<b>9</b> Enter the smaller of line 7 or line 8 or computed amount. See instructions . . . . .	<b>9</b>	
<b>10</b> Net operating loss (NOL) carryover deduction from years the corporation was a C corporation. See instructions . . . . .	<b>10</b>	
<b>11</b> Subtract line 10 from line 9. If zero or less, enter -0- here and on line 12 . . . . .	<b>11</b>	
<b>12</b> Tax on built-in gains. Multiply line 11 by 8.84% (financial S corps. must use 10.84%). Enter here and on Form 100S, Side 1, line 28 . . . . .	<b>12</b>	

**Part IV Net Capital Gains (Losses)**

Combine amounts on Part I, line 3a and Part II, line 6a. Enter here and on Form 100S, Side 1, line 4 . . . . .

**SECTION B – 1.5% Tax on Capital Gains****Part I Short-Term Capital Gains and Losses – Assets Held One Year or Less.** Use additional sheet(s) if necessary.

(a) Description of property (Example: 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Cost of other basis plus expense of sale	(f) Gain (loss) (d) less (e)
<b>1</b>					
<b>2 a</b> Short-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824. See instructions . . . . .				<b>2a</b>	
<b>b</b> Combine line 1, column (f) and line 2a. Enter here and on Form 100S, Schedule K, column (d), line 4d or line 6 . . . . .				<b>2b</b>	
<b>c</b> Unused capital loss carryover from 2004 attributable to the S corporation . . . . .				<b>2c</b>	
<b>3</b> Net short-term capital gain (loss). Combine line 2b and line 2c. . . . .				<b>3</b>	

**Part II Long-Term Capital Gains and Losses – Assets Held More Than One Year.** Use additional sheet(s) if necessary.

4									
5 Enter gain from Schedule D-1, line 9 and/or any capital gain distributions . . . . .					5				
6 Long-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824. See instructions . . . . .					6				
7 Net long-term capital gain (loss). Combine line 4, column (f) through line 6. Enter here and on Form 100S, Schedule K, column (d), line 4e or line 6 . . . . .					7				
8 Enter excess of net short-term capital gain Section B, Part I (line 3) over net long-term capital loss Section B, Part II, line 7 . .					8				
9 Net capital gain. Enter excess of net long-term capital gain (line 7) over net short-term capital loss (line 3) . . . . .					9				
10 Total line 8 and line 9. If line 10 is a gain, enter here and on Form 100S, Side 1, line 4. If line 10 is a loss, carry forward losses to year 2006 . . . . .					10				

**2005 S Corporation Dividend Income Deduction****H (100S)**

See instructions for Schedule H (100S). Use and attach additional sheets if necessary.

**Part I Elimination of Intercompany Dividends (R&TC Section 25106)**

(a) Dividend payer	(b) Dividend payee	(c) Total amount of dividends received	(d) Amount that qualifies for 100% elimination	(e) Amount from column (d) paid out of current year E&P	(f) Amount from column (d) paid out of prior year E&P	(g) Balance column (c) minus column (d)
1						
2						
3						
4						
5						
6						
7 Total amounts in each column. If no entry in Part III, enter the total from Part I, column (d) on Form 100S, Side 1, line 9 .....						

**Part II Deduction for Dividends Paid to a Fully Included Member of a Water's-Edge Combined Report (R&TC Section 24411)**

(Foreign dividends paid by partially included members of a water's-edge combined report cannot be computed on this schedule.)

(a) Dividend payer	(b) Percentage of ownership of dividend payer	(c) Member of water's-edge combined reporting group dividend was paid to (payee)	(d) Amount of qualified dividends received by payee (See instructions)	(e) Amount from col. (d) paid out of current year E&P	(f) Amount from col. (d) paid out of prior year E&P	(g) Deductible dividends column (d) X .75
1						
2						
3						
4						
5						
6						
7 Total amount in column (g). Enter the total from column (g) on Form 100S, Side 1, line 10 .....						

**Part III Deduction for Dividends Paid to a California Corporation by an Insurance Company (R&TC Section 24410)**

(a) Dividend payer	(b) Dividend payee	(c) Percentage of ownership of dividend payer (must be at least 80%)	(d) Total insurance dividends received	(e) Qualified dividend percentage (see instructions)	(f) Amount of qualified insurance dividends	(g) Deductible dividends 80% of column (f)
1						
2						
3						
4						
5						
6						
7 Total amount in column (g) .....						
8 Add amounts from Part I, column (d) and Part III, column (g), enter the result here and on Form 100S, Side 1, line 9 .....						



# Instructions for Schedule B/C/D/H (100S)

## What's New

Recently enacted legislation changes California's specified date of conformity to federal income tax laws from January 1, 2001 to January 1, 2005. This date change, in general, conforms to numerous changes made in the federal income tax law during that four-year period. For the most current information regarding specific provisions of conformity and non-conformity as it relates to this date change, please visit our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **conformity**.

## Schedules

### Schedule B (100S)

#### What's New

For taxable year beginning on or after January 1, 2005, California law conforms to federal law changes for the following:

- For start-up and organizational expenditures paid or incurred on or after January 1, 2005, the corporation may elect to deduct up to \$5000 of start-up and \$5,000 of organizational expenditures (with limitations) in the taxable year in which the trade or business begins. The remaining expenditures may be amortized ratably over that period of not less than 180 months.
- The useful life of any Alaska natural gas pipeline property and any motor sports entertainment complex shall be seven years.

For taxable year beginning on or after January 1, 2005, California does not conform to the federal changes regarding treatment of distribution costs and treatment of participations and residuals for purpose of computing depreciation under the income forecast method.

#### Important Information

Use Schedule B (100S) to calculate depreciation and amortization for California purposes. Effective January 1, 1998, California law conforms to federal law regarding the income forecast method and the exemption of limits on depreciation for incremental costs of clean fuel vehicles.

California generally conforms to the provisions of IRC Section 197 for amortization of intangibles for taxable years beginning on or after January 1, 1994. However, there may be differences in the federal and California amounts for intangible assets acquired in taxable years beginning prior to January 1, 1994. See R&TC Section 24355.5 for more information.

California did not allow depreciation under the federal accelerated cost recovery system (ACRS) for years prior to 1987. California also does not allow depreciation under MACRS for assets placed in service while the corporation was taxable as a C corporation. This is a

change of accounting method for which the taxpayer must request FTB's consent.

S corporations must continue calculating the California depreciation deduction for assets placed in service before January 1, 1987, in the same manner as in prior years. Get form FTB 3885, Corporation Depreciation and Amortization, to determine how to continue depreciating these assets. The following were the most common methods used to calculate depreciation for years prior to 1987:

- Straight-line;
- Declining balance; and
- Sum-of-the-years digits.

For assets placed in service in 1987 and after, S corporations may use the same method for California as was used for federal purposes. S corporations conducting a trade or business inside an EZ, LAMBRA, or TTA may elect to treat a portion of the cost of qualified property as a business expense in the first year it is placed in service. This expense deduction is in lieu of the IRC Section 179 expense deduction. For more information, get form FTB 3805Z, form FTB 3807, or form FTB 3809.

California generally conforms to the federal 2003 increase (IRC Section 280F) for the limitation on luxury automobile depreciation. However, California does not conform to IRC Section 168(k) provisions (30% and 50% additional first year depreciation). In addition, SUVs and minivans that are built on a truck chassis are now included in the definition of trucks and vans when applying the 6,000 pound gross weight limit.

The corporation may elect to expense part of the cost of depreciable personal property used in the trade or business and certain other property described in federal Publication 946, How to Depreciate Property. To do so, the

corporation must have purchased property, as defined in the IRC Section 179(d)(2), and placed it in service during 2005, or have a carryover of unused cost from 2004. If the corporation elects this deduction, the corporation must reduce the California depreciable basis by the IRC Section 179 expense. The maximum Section 179 expense allowed for 2005 is \$25,000.

Complete the worksheet below to figure IRC Section 179 expense for California. Include all assets qualifying for the deduction because the limit applies to all qualifying assets as a group rather than to each asset individually. Refer to federal Form 4562 for information.

### Schedule C (100S)

#### What's New

For taxable year beginning on or after January 1, 2005, California conforms to the federal law changes for the following:

- The applicable period for the taxpayer to replace livestock sold on account of weather-related conditions from two years to four years after the close of the first taxable year in which any part of the gain on conversion is realized.
- Capital gain treatment under IRC section 631(b) to apply to outright sales by landowners.

#### Important Information

Use Schedule C (100S) to determine the allowable amount of tax credits to claim on the 2005 Form 100S and the credit carryover to future years. For more information, see General Information Z, Passive Activity Loss Limitation, AA, Passive Activity Credits, and BB, Tax Credits.

#### Tangible Property Expense Worksheet

1	Maximum dollar limitation for California .....	1	25,000
2	Total cost of Section 179 property placed in service .....	2	
3	Threshold cost of Section 179 property before reduction in limitation .....	3	200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- .....	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0- .....	5	
(a) Description of property	(b) Cost	(c) Elected cost	
6			
7	Listed property (elected Section 179 cost) ....	7	
8	Total elected cost of Section 179 property. Add line 6, column (c) and line 7 .....	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8 .....	9	
10	Carryover of disallowed deduction from 2004 .....	10	
11	Enter the smaller of business income (not less than -0-) or line 5 .....	11	
12	Section 179 expense deduction for California. Add line 9 and line 10, but do not enter more than line 11. Also, enter the result on Schedule B (100S), Part I, line 5 .....	12	
13	Carryover of disallowed deduction to 2006. Add line 9 and line 10. Subtract line 12 from the result .....	13	

**Note:** The amount entered in column (a) must be limited to 1/3 the amount of the total credit.

## Schedule D (100S)

**Built-in Gains Tax** – For taxable years beginning on or after January 1, 2002, when determining the built-in gains tax, C corporations that were required to convert to S corporations as a result of the enactment of Chapter 35 of the Statutes of 2002, and as amended by Chapter 807 of the Statutes of 2002, for California purposes are deemed to have elected S corporation status on the effective date of their federal election regardless of the effective date for state purposes.

Schedule D (100S) is divided into Section A and Section B. Use Section A to report all built-in gains subject to the 8.84% tax rate (10.84% for financial S corporations). Use Section B to report all other capital gains subject to the 1.5% tax rate (3.5% for financial S corporations). See General Information J, Built-in Gains, for more information.

**Note:** Use California amounts when computing gain from like-kind exchanges on federal Form 8824, Like-Kind Exchanges.

### Section A

#### Part I and Part II

S corporations use Part I to report and summarize gains and losses attributable to: (1) sale or exchange of capital assets; and (2) gains on distributions to shareholders of appreciated assets that are capital assets. Be sure to use the California basis for all assets when computing the gain or loss. See the instructions for federal Schedule D (Form 1120S) for more information.

#### Line 2 and Line 5

Use California amounts when figuring the amount to enter for short or long-term capital gains or losses from like-kind exchanges from federal Form 8824.

#### Part III

##### Line 7

To determine if the S corporation is subject to tax on built-in gains, see the instructions for federal Schedule D (Form 1120S) and General Information J, Built-in Gains, in this booklet.

#### Apportioning corporations only:

All recognized built-in gains and all recognized built-in losses apportioned and allocated to California must be included on line 7.

##### Line 9

If the S corporation:

- Filed its election to be an S corporation after 1986;
- Was a C corporation before it elected to be an S corporation, or acquired an asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation; and
- Had a California net unrealized built-in gain as defined in IRC Section 1374(d)(1), that

was in excess of the California net recognized built-in gain from prior years.

Then compute the California net unrealized built-in gain reduced by the California net recognized built-in gain from prior years.

On line 9, enter the smaller of line 7, line 8, or the amount computed above.

##### Line 10

For taxable years beginning on or after January 1, 2004, California reinstated the Net Operating Loss (NOL) carryover deductions. The carryover periods for an NOL incurred in years:

- beginning before January 1, 2002, have been extended for two years.
- beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.

For taxable years beginning on or after January 1, 2004, 100% of the NOL may be carried forward. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations - Corporations.

#### Section B

Use Section B, Part I and Part II to report the sale or disposition of all capital assets acquired as an S corporation or which are not reported in Section A. For more information, see the instructions for federal Schedule D (Form 1120S).

#### Property Subject to IRC Section 179 Recapture:

Gain on property subject to the IRC Section 179 expense deduction recapture must be included in the taxable income of the S corporation. To accomplish this, the S corporation should complete two sets of Schedule D-1 and Schedule D (100S). One set of Schedule D-1 and Schedule D (100S) will include the gain or loss from the sale or disposition of IRC Section 179 assets as well as gain or loss from non-Section 179 business assets, and will be reported on the Form 100S. Indicate at the top of this Schedule D-1 and Schedule D (100S) "IRC Sec. 179 and Bus. Assets." When completing Schedule D-1 and Schedule D (100S) for the 100S, skip any instructions to report the gain or loss on Schedule K (100S) or Schedule K-1 (100S). Transfer the gain amount to Form 100S, Side 1, line 4.

The second set of Schedule D-1 and Schedule D (100S) is to report the gain or loss on non-Section 179 business assets for use on the Schedule K (100S) and K-1 (100S). To accomplish this, the S corporation should complete a Schedule D-1 and Schedule D (100S) with the gain or loss for the non-Section 179 business assets only. The amounts from this Schedule D-1 and Schedule D (100S) will be reported on the Schedule K (100S) and Schedule K-1 (100S). Indicate at the top of this Schedule D-1 and

Schedule D (100S) set "Non-Section 179 Business Assets Only."

## Schedule H (100S)

In *Farmer Bros. Co. v. Franchise Tax Board* (2003) 108 Cal App 4th, 134 Cal Rptr. 2nd 390, the California Court of Appeal found that the R&TC Section 24402 deductible dividend provision discriminated against interstate commerce in violation of the Commerce Clause of the United States Constitution. R&TC Section 24402 provided for a deduction to the extent that the dividend payer was taxable in California. A statute that is held to be unconstitutional is invalid and unenforceable. Therefore, the deduction is not available.

R&TC Section 24410 was repealed and re-enacted to allow a "Dividends Received Deduction" of qualified dividends received from an insurer subsidiary. The deduction is allowed whether or not the insurer is engaged in business in California, if at the time of each payment, at least 80% of each class of stock of the insurer was owned by the corporation receiving the dividend. For taxable years beginning on or after January 1, 2004, and before January 1, 2008, an 80% deduction is allowed for qualified dividends. For taxable years beginning on or after January 1, 2008, the deduction is increased to 85%. A portion of the dividends may not qualify if the insurer subsidiary paying the dividend is overcapitalized for the purpose of the dividends received deduction. See the Schedule H (100S), Part III instructions, for more information.

S corporations may claim a deduction for dividends paid by a corporation taxed by California on earnings from which the dividends are paid.

### Part I

#### Intercompany Dividends

Dividends paid to an electing S corporation from earnings and profits accumulated during any taxable year in which the dividend payer was included in the combined report, which included the dividend payee, qualify for the 100% intercompany dividend elimination.

**Note:** A corporation that has made a valid election to be treated as an S corporation is generally not included in a combined report. However, in some cases, the FTB may use combined reporting methods to clearly reflect income of an S corporation, see R&TC Section 23801(d)(1).

Complete Schedule H (100S), Part I. If no entry in Part III, enter the total from Part I, column (d) on Form 100S, Side 1, line 9.

### Part II

#### Water's-Edge Dividends

California R&TC Section 24411 allows for a 75% deduction of a portion of the dividends received and included in the water's-edge return. For taxable years beginning on or after

January 1, 1998, dividends received from banks qualify for the water's-edge dividend deduction. Both business and nonbusiness dividends qualify for the dividend deduction. The allowable business dividend deduction is determined by multiplying the total dividend deduction (business and nonbusiness) by the ratio of business dividends to total dividends. The remaining dividend deduction is the nonbusiness dividend deduction.

In no event will an R&TC Section 24411 deduction be allowed with respect to a dividend for which a deduction was allowed under R&TC Section 24410 or which was eliminated under R&TC Section 25106.

Current year qualifying dividends are dividends received by any current member of the water's-edge group from a corporation (regardless of the place of incorporation) if:

- The average of the payer's property, payroll, and sales factors within the U.S. is less than 20%; and
- More than 50% of the total combined voting power of all classes of voting stock is owned directly or indirectly by a member of the water's-edge group at the time the dividend is received.

#### **Interest Expense Deduction**

For taxable years beginning on or after January 1, 1997, the amount of interest expense incurred for purposes of foreign investments that must be offset against deductible foreign dividends must be computed by multiplying the amount of interest expense by the same percentage used to compute the deductible portion of the qualifying foreign dividends.

The payer need not be in a unitary relationship with the recipient or any other member of the water's-edge group.

Intercompany dividends received within the current year's water's-edge group should be eliminated pursuant to R&TC Section 25106 before computing the dividend deduction.

A deduction of 100% is provided for dividends derived from certain foreign construction projects. A construction project is defined as an activity attributable to an alteration of land or any improvement thereto. The construction project, the location of which is not subject to the taxpayers' control, must be undertaken for an entity, including a governmental entity, that is not affiliated with the water's-edge group.

For more information, see R&TC Section 24411 and Form 100W, California Corporation Tax Booklet — Water's-Edge Filers.

Complete Schedule H (100S), Part II and enter the total of column (g) on Form 100S, Side 1, line 10. For Part II, column (d), if any portion of a dividend also qualifies for the intercompany elimination in Part I, enter the balance from Part I, column (g) in Part II, column (d).

#### **Part III**

##### **Dividends Received Deduction**

R&TC Section 24410 provides that a corporation that owns 80% or more of each class of stock of an insurer is entitled to an 80% dividends received deduction for qualified dividends received from that insurer. The deduction would be allowed regardless of whether the insurer does business in California. The 80% deduction applies to taxable years beginning on or after January 1, 2004, and increases to 85% for taxable years beginning on or after January 1, 2008.

The amount of the dividends that qualify for the dividends received deduction is the total amount of dividends received from that insurer, multiplied by the insurer's qualified dividend percentage. The qualified dividend percentage is determined under R&TC Section 24410(c).

To complete Part III:

1. Fill in columns (a) through (c).
2. Enter in column (d) the total amount of insurance dividends received.
3. Enter the qualified dividend percentage in column (e).
4. Multiply the amount in column (d) by the qualified dividend percentage in column (e) and enter that amount in column (f).
5. Multiply the amount in column (f) by 80% and enter the result in column (g).
6. Total the amounts on Schedule H (100S), Part III, column (g), line 7.
7. Total the amount from Part I, column (d), line 7 and Part III, column (g), line 7. Enter the result on Part III, column (g), line 8 and on Form 100S, Side 1, line 9.

The calculation of the qualified dividend percentage should be presented in a supplemental schedule that is attached to the taxpayer's return. That schedule should identify the amount of the net written premiums for all the insurance companies in the commonly controlled group for the preceding five years (including an identification of property/casualty premiums, life insurance premiums, and financial guarantee premiums), the relative weight given to each class of net written premiums, and the total income of the insurance companies in the commonly controlled group (including premium and investment income for the preceding five years). For further information, see R&TC Section 24410.



# Shareholder's Share of Income, Deductions, Credits, etc.

## K-1 (100S)

For use by an S corporation and its shareholders only.

For calendar year 2005 or fiscal year beginning month \_\_\_\_\_ day \_\_\_\_\_ year 2005, and ending month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_

Shareholder's identifying number

California corporation number

Shareholder's name, address, and ZIP Code

Corporation's name, address, and ZIP Code

**A** Shareholder's percentage of stock ownership at year end ..... %**B** Tax shelter registration number ..... Type: .....**C** Check here if this is: ☒ (1) ☐ A final Schedule K-1 (2) ☐ An amended Schedule K-1**D** What type of entity is this shareholder? ..... ☒ (1) ☐ Individual (2) ☐ Estate/Trust (3) ☐ Qualified Exempt Organization**E** Is this shareholder a nonresident of California? ..... ☐ Yes ☒ No**Caution:** Refer to the shareholder's instructions for Schedule K-1 (100S) before entering information from this schedule on your California tax return.

	(a) Pro-rata share items	(b) Amount from federal Schedule K-1 (1120S)	(c) California adjustment	(d) Total amounts using California law. Combine (b) and (c) where applicable	(e) California source amounts and credits
<b>Income (Loss)</b>	<b>1</b> Ordinary income (loss) from trade or business activities .....			●	▶
	<b>2</b> Net income (loss) from rental real estate activities .....			●	▶
	<b>3</b> Net income (loss) from other rental activities .....				
	<b>4</b> Portfolio income (loss):				
	<b>a</b> Interest .....			●	▶
	<b>b</b> Dividends .....			●	▶
	<b>c</b> Royalties .....			●	▶
	<b>d</b> Net short-term capital gain (loss) .....			●	▶
<b>e</b> Net long-term capital gain (loss) .....			●	▶	
<b>f</b> Other portfolio income (loss). Attach schedule .....			●	▶	
<b>5</b> Net gain (loss) under IRC Section 1231 (other than due to casualty or theft) .....			●	▶	
<b>6</b> Other income (loss). Attach schedule .....			●	▶	
<b>Deductions</b>	<b>7</b> Charitable contributions .....				
	<b>8</b> Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, and 17268, and IRC Section 179). Attach schedule .....				
	<b>9</b> Deductions related to portfolio income (loss). Attach schedule .....				
	<b>10</b> Other deductions. Attach schedule .....				
<b>Investment Interest</b>	<b>11 a</b> Interest expense on investment debts .....			●	▶
	<b>b (1)</b> Investment income included on line 4a, line 4b, line 4c, and line 4f above .....				
	<b>(2)</b> Investment expenses included on line 9 above .....				
<b>Credits</b>	<b>12 a</b> Low-income housing credit. See instructions. Attach schedule .....			●	▶
	<b>b</b> Credits related to rental real estate activities other than on line 12(a). Attach schedule .....			●	▶
	<b>c</b> Credits related to other rental activities. See instructions. Attach schedule .....			●	▶
	<b>13</b> Other credits. Attach schedule .....			●	▶

	(a) Pro-rata share items	(b) Amount from federal Schedule K-1 (1120S)	(c) California adjustment	(d) Total amounts using California law. Combine (b) and (c) where applicable	(e) California source amounts and credits	
Adjustments and Tax Preference Items	<b>14 a</b> Depreciation adjustment on property placed in service after 12/31/86 .....					
	<b>b</b> Adjusted gain or loss .....					
	<b>c</b> Depletion (other than oil and gas) .....					
	<b>d (1)</b> Gross income from oil, gas, and geothermal properties .....					
	<b>(2)</b> Deductions allocable to oil, gas, and geothermal properties .....					
	<b>e</b> Other adjustments and tax preference items. Attach schedule .....					
Other State Taxes	<b>15 a</b> Type of income .....					
	<b>b</b> Name of state .....					
	<b>c</b> Total gross income from sources outside California. Attach schedule .....					
	<b>d</b> Total applicable deductions and losses. Attach schedule .....					
	<b>e</b> Total other state taxes. Check one: <input type="checkbox"/> Paid <input type="checkbox"/> Accrued .....			●	▶	
Other	<b>16 a</b> Total expenditures to which an IRC Section 59(e) election may apply .....					
	<b>b</b> Type of expenditures .....					
	<b>17</b> Tax-exempt interest income .....					
	<b>18</b> Other tax-exempt income .....					
	<b>19</b> Nondeductible expenses .....					
	<b>20</b> Total taxable dividend distribution paid from accumulated earnings and profits .....		●	▶		
	<b>21</b> Property distributions (including cash) other than dividend distributions reported to you on federal Form 1099-DIV .....		●	▶		
	<b>22</b> Amount of loan repayments for "Loans from Shareholders" .....		●	▶		
Supplemental Information	<b>23</b> Supplemental information that is required to be reported separately to each shareholder. See instructions. Attach additional sheet(s) if necessary.					
	<b>Table 1</b> — Each shareholder's share of nonbusiness income from intangibles. See instructions.					
	Interest	\$ _____	Royalties	\$ _____	Dividends	\$ _____
	1231 Gains/Losses	\$ _____	Capital Gains/Losses	\$ _____	Other	\$ _____
	<b>FOR USE BY APPORTIONING UNITARY SHAREHOLDERS ONLY</b>					
	<b>Table 2</b> — Unitary shareholder's pro-rata share of business income and factors — See instructions.					
	A. Shareholder's share of the S corporation's business income \$ _____					
	B. Shareholder's share of the nonbusiness income from real and tangible property sourced or allocable to California:					
Capital Gains/Losses	\$ _____	Rents/Royalties	\$ _____			
1231 Gains/Losses	\$ _____	Other	\$ _____			
C. Shareholder's share of the S corporation's property, payroll, and sales:						
<b>Factors</b>	<b>Total within and outside California</b>		<b>Total within California</b>			
Property: Beginning	\$ _____		\$ _____			
Ending	\$ _____		\$ _____			
Annual Rent Expense	\$ _____		\$ _____			
Payroll	\$ _____		\$ _____			
Sales	\$ _____		\$ _____			

# Shareholder's Instructions for Schedule K-1 (100S)

## For S Corporation Shareholder's Use Only

References in these instructions are to the Internal Revenue Code (IRC) as of January 1, 2005, and to the California Revenue and Taxation Code (R&TC).

### What's New

**Federal/State Conformity** – Recently enacted legislation changes California's specified date of conformity to federal income tax laws from January 1, 2001 to January 1, 2005. This date change, in general, conforms to numerous changes made in the federal income tax law during that four-year period. For the most current information regarding specific provisions of conformity and non-conformity as it relates to this date change, please visit our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **conformity**.

- California conforms to the modification to the qualification requirements of S corporations and their shareholders.

**Katrina Tax Relief Act** – As of the date of publishing, California has not conformed to any of the federal law changes made under the Katrina Emergency Tax Relief Act of 2005. However, California will follow federal policy by allowing special tax relief for California taxpayers affected by Hurricane Katrina in the federally declared disaster areas for the items listed below:

- Extended due dates for filing tax returns and paying taxes;
- Donations of approved employee leave time program;
- Qualified distributions from qualified pension plans.

For more information related to Hurricane Katrina, visit the FTB Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and see Disaster loss under the Filing tab.

**Natural Heritage Preservation Credit** – The funding for the Natural Heritage Preservation Credit is available beginning January 1, 2005 until June 30, 2008. The funding was not available in 2004. For more information, get form FTB 3503, Natural Heritage Preservation Credit; go to the Wildlife Conservation Board (WCB) Website at [www.wcb.ca.gov](http://www.wcb.ca.gov); or contact WCB at (916) 445-8448.

### General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, please visit our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

For taxable years beginning on or after January 1, 2002, California no longer allows a federal S corporation to elect to be a California C corporation. Therefore, for the taxable year beginning in 2002, and thereafter, any corporation with a valid federal S corporation election is considered an S corporation for California purposes. The effective

date of the election is the first day of the corporation's taxable year beginning in 2002.

Corporations that elect to be an S corporation for federal purposes on or after January 1, 2002, and have a California filing requirement are deemed to make the California S election on the same date as the federal election.

For taxable years beginning on or after January 1, 2002, a group nonresident return for shareholders of an S corporation may be filed with one nonresident individual shareholder.

For taxable years beginning on or after January 1, 2004, California has reinstated the Net Operating Loss (NOL) carryover deductions. The carryover periods for an NOL incurred in years:

- beginning before January 1, 2002, have been extended for two years.
- beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.

For taxable years beginning on or after January 1, 2004, 100% of the NOL may be carried forward. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations - Corporations.

For taxable years beginning on or after January 1, 2002, the NOL allowed in computing the California taxable income of a nonresident or part-year resident is no longer limited by the amount of NOLs from all sources. Only your California sourced income and losses are considered in determining if you have a California NOL. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency, and form FTB 3805V, Net Operating Loss (NOL) Computation and NOL Disaster Loss Limitations – Individuals, Estates, and Trusts.

California law has not conformed to federal law regarding the additional 30% or 50% first-year depreciation allowance for qualified property.

California has conformed to the federal Job Creation Act of 2002 provision that affects discharge of indebtedness of an S corporation. This provision provides that income from the discharge of indebtedness of an S corporation that is excluded from the S corporation's income is not taken into account as an item of income by any shareholder and thus does not increase the basis of any shareholder's stock in the corporation. This provision would apply for California purposes to discharges of indebtedness after December 31, 2001, in taxable years ending after that date. The provision would not apply to any discharge of indebtedness before March 1, 2002, pursuant to a plan of reorganization filed with a bankruptcy court on or before October 11, 2001.

For taxable years beginning on or after January 1, 2003, California will follow the revised federal instructions (**with some exceptions**) for reporting the sale, exchange, or disposition of an asset for which an IRC Section 179 expense deduction was claimed in prior years by a partnership, limited liability company, or S corporation.

Shareholders should follow federal reporting requirements as detailed in federal Form 1120S, U.S. Income Tax Return for an S Corporation, federal Form 4797, Sale of Business Property, and instructions.

### A Purpose

The S corporation uses Schedule K-1 (100S) to report your share of the S corporation's income, deductions, credits, etc. Information from the Schedule K-1 (100S) should be used to complete

your California tax return. Please keep a copy of Schedule K-1 for your records. However, do not file the schedule with your California tax return.

Although the S corporation is subject to various taxes, you are liable for the income tax on your share of the S corporation's income, whether or not distributed, and you must include your share on your California tax return.

The amount of losses and deductions that you may claim on your tax return may be less than the amount reported on Schedule K-1 (100S). Generally, the amount of losses and deductions you may claim is limited to your basis in the S corporation stock, debt owed to you by the S corporation, and the amount for which you are considered at-risk. Also, if the S corporation has losses, deductions, or credits from a passive activity, you must apply the passive activity rules. It is your responsibility to consider and apply any applicable limitations. See General Information C, Limitations on Losses, Deductions, and Credits. Use these instructions to help you report the items shown on Schedule K-1 (100S) on your California tax return.

For the line items where "attach schedule" appears, the S corporation should have provided additional information applicable to that line or the S corporation should have made an entry on Schedule K-1 (100S) Side 2, line 23.

A nonresident shareholder of an S corporation that is doing business in California may qualify to file a group nonresident tax return on Long Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. For more information on filing a group nonresident tax return, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR.

### B Reporting Information from Columns (c), (d), and (e)

#### Inconsistent treatment of items

Generally, shareholders must report IRC subchapter S items shown on their Schedule K-1 (100S), and any attached schedules, the same way the corporation treated the items on its tax return. If the treatment on a shareholder's original or amended tax return is inconsistent with the corporation's treatment, or if the corporation has not filed a tax return, you must attach a statement with your original or amended tax return to identify and explain any inconsistency or to note that a corporate tax return has not been filed. If a shareholder is required to attach this statement but fails to do so, the shareholder may be subject to an accuracy related penalty.

#### Line 1 through Line 22

If you are an individual shareholder, take the amounts in column (c) that are from nonpassive activities and enter these amounts on the appropriate California form or schedule as explained in these instructions.

Report the amounts in column (d) or column (e) that are from passive activities on the California form or schedule where they are normally reported. Bring the total amounts figured on the appropriate California form or schedule to form FTB 3801, Passive Activity Loss Limitations, to figure the amount of your passive activity loss limitation. Then transfer the passive activity loss back to the form or schedule it is normally reported on to figure your California adjustment amount. Enter this adjustment amount on the corresponding line of Schedule CA (540 or 540NR), California Adjustments, or Form 541, California Fiduciary Income Tax Return.

If there is no California schedule or form to figure your passive activity loss adjustment amount on (i.e., rental loss from passive activities), you may figure the



adjustment amount on the California Adjustment Worksheet in the instructions for form FTB 3801. Enter the total of your adjustments from all passive activities from line 1 and line 2 of this worksheet on Schedule CA (540 or 540NR), as applicable.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, these carryforward losses, deductions, and credits may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior year amounts with any amounts shown on this Schedule K-1 (100S) to get a net figure to report on any supporting schedules, statements, or forms attached to your tax return. Instead, report the amounts on an attached schedule, statement, or form on a year-by-year basis.

## C Limitations on Losses, Deductions, and Credits

The amounts shown on line 1 through line 3 reflect your share of income or loss from the S corporation's business or rental operations without reference to your limitations on losses or adjustments that may be required because of:

- The adjusted basis of your S corporation ownership interest per IRC Section 1366(d);
- The amount for which you are at-risk as determined under IRC Section 465; and
- The passive activity limitations of IRC Section 469.

See the instructions for federal Schedule K-1 (Form 1120S) line 1 through line 3 for more information.

### Basic rules

Generally, you may not claim your share of the S corporation loss (including capital loss) that is greater than the adjusted basis of your shareholder interest at the end of the S corporation's taxable year.

Basis is increased by:

1. All income (including tax-exempt income) reported on Schedule K-1 (100S).
2. Money and adjusted basis of property contributed to the corporation.
3. The excess of the deduction for depletion over the adjusted basis of the property subject to depletion.

Basis is decreased by:

1. Fair market value of property distributions (including cash) made by the corporation (excluding dividend distributions reported on Form 1099-DIV and distributions in excess of basis) reported on Schedule K-1 (100S), line 21.
2. All losses and deductions (including nondeductible expenses) reported on Schedule K-1 (100S).

These items are not a complete list of factors that determine basis. For examples, please see Treas. Reg. Section 1.1367-1.

### At-risk rules

Generally, if you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the corporation; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your tax return. For California purposes, you must complete federal Form 6198 using California amounts.

The at-risk rules generally limit the amount of loss (including loss on disposition of assets) and other deductions (such as IRC Section 179 or R&TC Sections 17267.2, 17267.6, and 17268 deductions) that you may claim to the amount you could actually lose in the activity. See the instructions for federal Schedule K-1 (Form 1120S), At-Risk Limitations, for more information.

### Passive activity limitations

Generally, California tax law conforms to federal IRC Section 469 rules that limit the deduction of certain losses and credits.

These rules apply to shareholders who:

- Are individuals, estates, or trusts; and
- Have a loss or credit from a passive activity.

A passive activity is generally a rental activity or a trade or business activity in which the shareholder does not materially participate.

If you have a loss or deductions from a passive activity, you will need to complete form FTB 3801 to figure the allowable amounts to report on your individual tax return. You will also need to complete form FTB 3801 if you have passive activity income from this S corporation and passive activity loss or deduction from another source.

The amounts reported on Schedule K-1 (100S), line 2 and line 3 are from rental activities of the S corporation and are generally passive activity income (loss) to all shareholders.

There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The S corporation will identify any of these qualified amounts on an attachment for line 2.

**Note:** Passive activity credits are also limited to passive income. See the instructions for line 13.

**Caution:** During 1993, the U.S. Congress made changes to the passive activity loss provisions of the IRC relating to real estate professionals. California has not conformed to those changes.

## D California Adjustment — Column (c)

Use this column to account for your proportionate share of the differences in the computation of federal and California income.

The most common adjustment items are:

- California minimum franchise tax;
- Depreciation expense due to different basis of the assets or depreciation method used;
- Gain or loss on sale of assets due to the effects of different depreciation methods or basis; and
- Government bond interest income:
  - a) U.S. bond interest is taxable for federal purposes but not for California purposes; and
  - b) State bond interest (other than from California bonds) is taxable for California purposes but not for federal purposes.

## E Total amounts using California law — column (d) and California source amounts and credits — column (e)

Shareholders who are California residents will use amounts shown in column (d) because California resident individuals are subject to personal income tax on all income from whatever source derived (R&TC Section 17041). Nonresident shareholders who do not conduct a trade or business that is unitary with the S corporation should use the amounts in column (c), column (d) (for total income purposes), column (e) (for California source income purposes), and Table 1. If the nonresident shareholder conducts a unitary business with the S corporation, data in column (e) should not be used. Instead, the shareholder must combine its share of the S corporation's income with the income from its trade or business and apportion that income using an apportionment percentage consisting of a combination of the factors from its trade or business and the shareholder's share of the

factors from the S corporation from Table 2. Amounts in Table 1 should be sourced to the residency or commercial domicile of the shareholder.

## Specific Line Instructions

The Internal Revenue Service (IRS) revised the federal Schedule K-1 (1120S). As a result of the revision, the federal Schedule K-1 (1120S) and California Schedule K-1 (100S) line items are no longer in agreement. When preparing the California Schedule K-1 (100S), be sure to transfer the appropriate amounts from the federal Schedule K-1 (1120S). Refer to the **Specific Line Instructions** when completing California Schedule K-1 (100S).

### Income (Loss)

#### Line 1 — Ordinary income (loss) from trade or business activities

The amount reported on line 1, column (d) or column (e) is your share of the ordinary income (loss) from the trade or business activities of the S corporation. Generally, where you report this amount on Form 540, Long Form 540NR, or Form 541 depends on whether or not the amount is from an activity that is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this S corporation or from any other source, report the line 1, column (d) or column (e) income on form FTB 3801.

If a loss is reported on line 1, column (d) or column (e), report the loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

#### Line 2 — Net income (loss) from rental real estate activities

Generally, the income (loss) reported on line 2, column (d) or column (e), is a passive activity amount to all shareholders. However, there is an exception for losses from a qualified low-income housing project. The loss limitations do not apply to qualified investors in a qualified low-income housing project. The S corporation will have attached a schedule for line 2 to identify such amounts, if applicable. Enter the California adjustment amount from column (c) on Schedule CA (540 or 540NR), as applicable.

Use the following instructions to determine where to enter a line 2 amount.

- If you have a loss on line 2, column (d) or column (e) (other than a qualified low-income housing project loss), enter this passive activity loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

**Note:** If you are a qualified investor reporting a qualified low-income housing project loss, enter the California adjustment amount from column (c) directly on Schedule CA (540 or 540NR), as applicable.

- If you have income on line 2, column (d) or column (e) and no passive losses, enter the California adjustment from column (c) on Schedule CA (540 or 540NR), as applicable.

#### Line 3 — Net income (loss) from other rental activities

The amount on line 3, column (d) or column (e) is a passive activity amount for all shareholders.

- If line 3, column (d) or column (e) is a loss, enter the loss on the applicable line of form FTB 3801.
- If income is reported on line 3, column (d) or column (e) and you have no passive losses, enter the California adjustment from column (c) on Schedule CA (540 or 540NR), as applicable.

#### Line 4 — Portfolio income (loss)

- Enter the amount of interest income from federal Schedule K-1 (1120S), box 4.
- Enter the amount of dividend income from federal Schedule K-1 (1120S), box 5a and 5b.

- Enter the amount of royalties from federal Schedule K-1 (1120S), box 6.
- Enter the amount of net short-term capital gain (loss) from federal Schedule K-1 (1120S), box 7.
- Enter the amount of net long-term capital gain (loss) from federal Schedule K-1 (1120S), box 8a.
- Enter the amount of other portfolio income (loss) from federal Schedule K-1 (1120S), box 10.

Income (loss) referred to as "portfolio" income (loss) in these instructions is not part of a passive activity subject to the rules of IRC Section 469. Portfolio income includes income not derived in the ordinary course of a trade or business from interest, dividends, annuities, or royalties and gain (loss) on the sale of property that produces these types of income or is held for investment. If you have amounts on Schedule K-1 (100S), line 4a through line 4f, report these amounts as follows:

- Enter line 4a, column (c) and/or column (e) on Schedule CA (540 or 540NR), line 8, whichever column is applicable;
- Enter line 4b, column (c) and/or column (e) on Schedule CA (540 or 540NR), line 9, whichever column is applicable;
- Enter line 4c, column (c) and/or column (e) on Schedule CA (540 or 540NR), line 17, whichever column is applicable;
- Enter line 4d and line 4e, column (d) or column (e) on Schedule D; and
- Enter line 4f, column (d) or column (e) on the applicable schedule.

**Caution:** Generally, amounts reported on line 4d and line 4e are gains or losses attributable to the disposition of property held for investment and are therefore classified as portfolio income (loss). If, however, an amount reported on line 4d or line 4e, column (d) or column (e), is a passive activity amount, the S corporation should identify the amount.

The S corporation uses line 4f, column (d) or column (e), to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. A statement will be attached to tell you what kind of portfolio income is reported on line 4f, column (d) or column (e).

#### Line 5 – Net gain (loss)

Enter the amount of net Section 1231 gain (loss) from federal Schedule K-1 (1120S), box 9.

If the amount on line 5 relates to a rental activity, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount to you, report it on Schedule D-1, Sales of Business Property, line 2, column (g). You do not have to complete the information called for in column (b) through column (f). Write "From Schedule K-1 (100S)" across these columns.
- If a gain is reported on line 5, column (d) or column (e), and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (g), and refer to "Passive Loss Limitations" in the instructions for Schedule D-1.
- If a loss is reported on line 5, column (d) or column (e) and it is a passive activity amount to you, report the loss on Schedule D-1, line 2, column (g), and refer to "Passive Loss Limitations" in the instructions for Schedule D-1. You will need to use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

#### Line 6 – Other income (loss)

Enter the amount of other income (loss) from federal Schedule K-1 (1120S), box 10.

Amounts on this line are other items of income, gain, or loss not included on line 1 through line 5. The S corporation should give you a description of your share for each of these items.

Report income or gain items that are passive activity amounts to you as instructed below. If, in addition to this passive activity income or gain, you have passive activity losses from any other source, also report the passive activity income or gain on form FTB 3801.

Line 6 items may include the following:

- S corporation gains from the disposition of farm recapture property (refer to Schedule D-1) and other items to which IRC Section 1252 applies;
- Recovery of bad debts, prior taxes, and delinquency amounts (IRC Section 111). Report the amount from line 6, column (c), on Schedule CA (540 or 540NR), line 21, whichever column is applicable;
- Gains and losses from gambling, IRC Section 165(d);
- Any income, gain, or loss to the S corporation under IRC Section 751(b) from a partnership. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain (loss) from a partnership. Report this amount on Schedule D-1, line 10;
- Net gain (loss) from involuntary conversions due to casualty or theft. The S corporation will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, line 37, column (b)(i), column (b)(ii), and column (c);
- Net short-term capital gain or loss, net long-term capital gain or loss, gain or loss from Schedule D (100S) that is **not** portfolio income (e.g., gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the S corporation);
- Any new gain or loss from IRC Section 1256 contracts; and
- Eligible gain from the sale or exchange of qualified small business stock (as defined in R&TC Section 18152.5). The S corporation should also give you the name of the corporation that issued the stock and your pro-rata share of the basis of that stock.

## Deductions

#### Line 7 – Charitable contributions

Enter the amount of charitable contributions from federal Schedule K-1 (1120S), box 12.

The S corporation will give you a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. Refer to the federal instructions for Form 1040 for more information.

If there is an amount on Schedule K-1 (100S), line 7, column (c), enter this amount on Schedule CA (540 or 540NR), line 39.

#### Line 8 – Expense deduction for recovery property

Enter the amount of Section 179 deduction from federal Schedule K-1 (1120S), box 11.

The maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you may claim from all sources is \$25,000. The S corporation will give you information on your share of the cost of the S corporation's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments, and federal Publication 534, Depreciating Property Placed in Service Before 1987, for more information.

If the S corporation reported an EZ, TTA, or LAMBRA business expense deduction on this line from R&TC Sections 17267.2, 17267.6, or 17268, complete form FTB 3805Z, form FTB 3809, or form FTB 3807, to report your pro-rata share.

#### Line 9 – Deductions related to portfolio income (loss)

Enter the amount of deductions related to portfolio income (loss) from federal Schedule K-1 (1120S), box 12.

Amounts entered on this line are the expenses (other than investment interest expense and expenses from a REMIC) paid or incurred to produce portfolio income. If you have an amount on Schedule K-1 (100S), line 9, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR). However, if any of the line 9 amount should not be reported on Schedule CA (540 or 540NR), the S corporation will identify that amount for you.

#### Line 10 – Other deductions

Enter the amount of other deductions from federal Schedule K-1 (1120S), box 12.

Amounts on this line are other deductions not included on line 7 through line 9. If there is an amount on Schedule K-1 (100S), line 10, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

## Investment Interest

#### Line 11a and Line 11b

If the S corporation paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

#### Line 11a – Interest expense on investment debts

Enter the amount from column (d) or column (e) on form FTB 3526 along with your investment interest expense from other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

#### Line 11b(1) and Line 11b(2) – Investment income and investment expenses

Use the column (d) or column (e) amounts on these lines to determine the amount to enter on form FTB 3526, line 4 and line 5.

**Caution:** The amounts shown on line 11b(1) and line 11b(2) include only investment income and expenses included on lines 4a, 4b, 4c, 4f, and line 9 of this Schedule K-1 (100S). The S corporation should attach a schedule that shows you the amount of any investment income and expenses included in any other lines of your Schedule K-1 (100S). Use these amounts, if any, to adjust line 11b(1) and line 11b(2) to determine your total investment income and total investment expenses from this S corporation. Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 4.

## Credits

The S corporation must provide the information you need to compute a credit allowable on your tax return.

#### Line 12a – Low-income housing credit

Your share of the S corporation's low-income housing credit is shown on line 12a, column (d) or column (e). Any available credit is entered on form FTB 3521, Low-Income Housing Credit. To claim this credit, attach a copy of form FTB 3521 to your tax return.

**Caution:** You may not claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under Section 502 of the federal Tax Reform Act of 1986. Also, the passive activity credit limitations of IRC Section 469 may limit the amount of credit you may take. Get form FTB 3801-CR, Passive Activity Credit

Limitations, to figure the amount of credit that may be limited under the passive activity rules.

For more information, see the instructions for line 13.

#### **Line 12b – Credits related to rental real estate activities**

If applicable, the S corporation may use this line, through an attached schedule, to give you the information you need to compute credits related to rental real estate activities other than the low-income housing credit.

For more information, see the instructions for line 13.

#### **Line 12c – Credits related to other rental activities**

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to rental activities other than rental real estate activities.

For more information, see the instructions for line 13.

#### **Line 13 – Other credits**

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to a trade or business activity.

Credits that may be reported on line 12c or line 13 (depending on the type of activity they relate to) include but are not limited to:

- Enterprise Zone (EZ) hiring & sales or use tax credit (FTB 3805Z);
- Targeted Tax Area (TTA) hiring & sales or use tax credit (FTB 3809);
- Local Agency Military Base Recovery Area (LAMBRA) hiring & sales or use tax credit (FTB 3807);
- Research credit (FTB 3523); or
- Manufacturing Enhancement Area (MEA) hiring credit (FTB 3808).

**Note:** The pass-through rules of IRC Section 1366, the at-risk limitations of IRC Section 465, and the passive activity limitations of IRC Section 469 may limit the amount of credits that you may take. Credits on line 12 and line 13 may be passive activity credits to shareholders who do not materially participate in the activities of the S corporation.

Passive activity credits are limited to tax attributable to passive activities income. If you do not materially participate in the activity of the S corporation, get form FTB 3801-CR, Passive Activity Credit Limitations, to determine the amount of the credit you may take.

## **Adjustments and Tax Preference Items**

#### **Line 14a through Line 14e**

Use the information reported on line 14a through line 14e (as well as adjustments and tax preference items from other sources) to prepare Schedule P (540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations.

For more information, get federal Schedule K-1 (Form 1120S), instructions for Adjustments and Tax Preference Items.

## **Other State Taxes**

#### **Line 15a through Line 15e**

You may claim a credit against your individual tax for your share of net income taxes paid by the S corporation to certain other states which either impose a tax on the S corporation or do not recognize S corporation status. For purposes of this credit, net income taxes include your share of taxes on, according to, or measured by income.

Residents are taxed on their pro-rata share of all income and generally receive a credit for taxes paid to other states. Nonresidents and part-year residents

use column (e) for your pro-rata share of California source pass-through income.

For more information, get California Schedule S, Other State Tax Credit.

## **Other**

**Note:** Amounts on line 16a through line 22 may not necessarily be California source amounts. However, enter the same amount in column (e) as entered in column (d).

#### **Line 16a through Line 19**

Refer to the instructions for federal Schedule K-1 (1120S).

#### **Line 20**

The S corporation must issue a federal Form 1099-DIV to you for this distribution. Report this amount as a taxable dividend on your tax return.

#### **Line 21**

Reduce your basis in stock of the S corporation by the fair market value of the distributions on line 21. If these distributions exceed your basis in stock, the excess is treated as gain from the sale or exchange of property and is reported on Schedule D.

#### **Line 22**

If the line 22 payments are made on indebtedness with a reduced basis, the repayments result in income to you to the extent the repayments are more than the adjusted basis of the loan. See IRC Section 1367(b)(2) for information on reduction in basis of a loan and restoration of basis of a loan with a reduced basis. See federal Revenue Ruling 68-537, 1968-2 C.B. 372, for more information.

## **Supplemental Information**

#### **Line 23**

The S corporation will provide supplemental information required to be reported to you on this line. If the S corporation is claiming tax benefits from an EZ, LAMBRA, TTA, or MEA, it will give you your pro-rata share of (1) business income apportioned to the EZ, LAMBRA, MEA, or TTA, and (2) business capital gains and losses included in (1) on this line. Get form FTB 3805Z, FTB 3807, FTB 3808, or FTB 3809 to claim any applicable credit or business expense deduction.

The S corporation may have provided an amount showing your proportionate interest in the S corporation's aggregate gross receipts, less returns and allowances on Schedule K-1 (100S), line 23. Legislation enacted in 1996 allows a **qualified taxpayer** to exclude from alternative minimum taxable income adjustments and items of tax preference attributable to any trade or business. A "qualified taxpayer" is defined as an individual, estate, or trust that:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 from **all** trades or businesses that the taxpayer is an owner of, or has an ownership interest in, in the amount of that taxpayer's proportionate interest in each trade or business.

"Aggregate gross receipts, less returns and allowances" means the sum of the gross receipts of the trades or businesses which you own and the proportionate interest of the gross receipts of the trades or businesses which you own and of pass-through entities in which you hold an interest.

"Proportionate interest" is defined as:

- In the case of a pass-through entity which reports a profit for the taxable year, your profit interest in the entity at the end of your taxable year.

- In the case of a pass-through entity which reports a loss for the taxable year, your loss interest in the entity at the end of your taxable year.
- In the case of a pass-through entity which is sold or liquidates during the taxable year, your capital account interest in the entity at the time of the sale or liquidation.

"Proportionate interest" includes an interest in a pass-through entity including a partnership, S corporation, regulated investment company, real estate investment trust, or real estate mortgage investment conduit.

For purposes of R&TC Section 17062(b)(4), "gross receipts" means the sum of gross receipts from the production of business income, within the meaning of subdivisions (a) and (c) of R&TC Section 25120, and the gross receipts from the production of nonbusiness income, within the meaning of subdivision (d) of R&TC Section 25120. "Proportionate interest" includes an interest in a pass-through entity. See R&TC Section 17062 for more information.

The pro-rata share of gain or loss on property subject to the IRC Section 179 expense deduction recapture should be reported on the Schedule K-1 (100S) as supplemental information. Follow the instructions on the federal Form 4797 and federal Schedule K-1 (1120S) for the reporting requirements.

If the S corporation listed any credit recapture on this line, see your tax booklet for information on how to report the credit recapture.

#### **Table 1**

The income data contained in Table 1 is not reflected in column (e) because the source of such income must be determined at the shareholder level. The shareholder must make a determination whether the nonbusiness intangible income item is from a California source.

Net nonbusiness income is computed by subtracting related nonbusiness expenses from the nonbusiness income.

#### **Table 2**

If the shareholder and S corporation are engaged in a single unitary business, the shareholder's share of the S corporation's business income is entered on Table 2, Part A. The shareholder will then add that income to its own business income and apportion the combined business income.

The shareholder's share of the S corporation's payroll, property, and sales data is in Table 2, Part C. The business income in Table 2, Part A is combined with the taxpayer's other business income from the unitary business. The apportionment numerator and denominator data are added to the appropriate numerator and denominator of the shareholder's payroll, property, and sales factors.



**2005**

# Qualified Subchapter S Subsidiary (QSub) Information Worksheet

**QS****Part I**

Name of parent corporation	California corporation number	Federal employer identification number (FEIN)
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**Part II**

(a) Name of QSub	(b) California corporation number	(c) Federal employer identification number	(d) Effective date of federal QSub election (MM/DD/YY)	(e) Date of QSub annual tax payment (MM/DD/YY)	(f) Amount of QSub annual tax paid

## General Information

For taxable years beginning on or after January 1, 1997, California law has conformed to the federal treatment of Qualified Subchapter S Subsidiaries (QSub), with certain exceptions. The QSub is subject to an annual tax of \$800 which is paid by the S corporation's parent. See Form 100S, General Information DD, Qualified Subchapter S Subsidiary (QSub), for more information.

An S corporation parent must complete the Schedule QS and attach it to the Form 100S.

## Purpose

The Qualified Subchapter S Subsidiary Information Worksheet is used by the S corporation parent of a QSub to inform the Franchise Tax Board (FTB) of the QSub(s) it owns. This worksheet notifies the FTB that the QSub items of income, deductions, and credits will be included in the parent's return and the QSub will not be filing a separate California franchise or income tax return.

## Specific Instructions

**Part I**

Enter in Part I the name of the parent S corporation, the S corporation's California corporation number, seven digits, and the federal employer identification number (FEIN), nine digits.

**Part II**

Enter in Part II the information for each QSub required to be included in the California S Corporation Franchise or Income Tax Return. In column (a), enter the name of each QSub included in this return. If the QSub has or had a California corporation number, enter the number in column (b). If the QSub has or had a FEIN, enter the number in column (c). If the corporation does not have a California corporation number and/or a FEIN, enter "none."

Enter the effective date of the federal QSub election made for the subsidiary in column (d). An election made by the parent S corporation under IRC Section 1361(b)(3) to treat a corporation as a qualified subchapter S subsidiary for federal purposes is treated as a binding election for California purposes. A separate election cannot be filed for California. If the effective date falls on a date other than the first day of the subsidiary's taxable year, the subsidiary must file a short-period return if it was subject to tax in California prior to the effective date.

The S corporation parent is required to pay \$800 annual tax for each QSub it owns that is incorporated, qualified, or doing business in California. The QSub annual tax is due and payable when the S corporation's first estimated tax payment is due. If the QSub is acquired during the taxable year, the QSub annual tax is due with the S corporation's next estimated tax installment. Enter the date of payment in column (e) and amount of QSub annual tax paid in column (f).

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**visit our Website:**

**[www.ftb.ca.gov](http://www.ftb.ca.gov)**

# Instructions for Form FTB 3539

## Payment Voucher for Automatic Extension for Corporations and Exempt Organizations

### General Information

Use form FTB 3539 **only** if:

- You cannot file your 2005 California (CA) tax return by the original due date; and
- You owe tax for the 2005 taxable year.

Use the worksheet on the following page to determine if you owe tax.

- If you do not owe tax, there is nothing to file at this time. **Do not** complete this voucher. However, you must file your return by the extended due date listed below.
- If you owe tax, complete the voucher and mail it along with your check or money order to the Franchise Tax Board (FTB) by the original due date to avoid penalties and interest. See Penalties and Interest on next page for more information.

**Note:** All checks or money orders must be payable in US dollars and drawn against a US financial institution.

If a corporation (including real estate investment trusts (REITs), real estate mortgage investment conduits (REMICs), regulated investment companies (RICs), limited liability companies (LLCs) electing to be treated as corporations, or an exempt organization in good standing) cannot file its CA tax return by the original due date, a seven-month

### Payment of Tax Due Dates:

To avoid late payment penalties and interest, 100% of the tax liability must be paid by the following due dates:

#### Form Filed

- Form 100, 100S, or 100W
- Form 100 for farmers' cooperative
- Form 199 or 109, generally
- Form 109 for employee's trust (IRC 401(a)), or IRA

#### Calendar Year Filers

- March 15, 2006
- September 15, 2006
- May 15, 2006
- April 17, 2006

#### Fiscal Year Filers: 15th day of the

- 3rd month following the close of the taxable year
- 9th month following the close of the taxable year
- 5th month following the close of the taxable year
- 4th month following the close of the taxable year

### Extended Due Dates:

The extended due date for filing is as follows:

#### Form Filed

- Form 100, 100S, or 100W
- Form 100 for farmers' cooperative
- Form 199 or 109, generally
- Form 109 for employee's trust (IRC 401(a)) or IRA

#### Calendar Year Filers

- October 16, 2006
- April 16, 2007
- December 15, 2006
- November 15, 2006

#### Fiscal Year Filers: 15th day of the

- 10th month following the close of the taxable year
- 16th month following the close of the taxable year
- 12th month following the close of the taxable year
- 11th month following the close of the taxable year

### Notes:

- An extension of time to file the CA tax return is **not** an extension of time to pay the tax.
- Save the completed worksheet as a permanent part of the corporation's or exempt organization's tax records along with a copy of the CA tax return.

— DETACH HERE — IF NO PAYMENT IS DUE, DO NOT MAIL THIS FORM — DETACH HERE —

(Calendar year corporations — Due March 15, 2006) (Fiscal year filers — see instructions)

(Employees' trust and IRA — Due April 17, 2006)

(Calendar year exempt organizations — Due May 15, 2006)

TAXABLE YEAR

**2005**

## Automatic Extension for Corps and Exempt Orgs

CALIFORNIA FORM

**3539 (CORP)**

For calendar year 2005 or fiscal year beginning month \_\_\_\_\_ day \_\_\_\_\_ year 2005, and ending month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_

California corporation number \_\_\_\_\_ Federal employer identification number \_\_\_\_\_

**Tax Due**

Corporation/exempt organization name \_\_\_\_\_

Address \_\_\_\_\_

PMB no. \_\_\_\_\_

Entity will file.

- ☐ Form 100, Form 100W, or Form 100S
- ☐ Form 109
- ☐ Form 199

City \_\_\_\_\_

State \_\_\_\_\_

ZIP Code \_\_\_\_\_

Contact telephone no. \_\_\_\_\_

IF NO PAYMENT IS DUE, DO NOT MAIL THIS FORM

EFT TAXPAYERS, DO NOT MAIL THIS FORM

353905103

FTB 3539 2005

## Where to File

If tax is due and the corporation or exempt organization is not paying through EFT, make a check or money order payable to "Franchise Tax Board" for the amount of the tax due. Write the California corporation number or FEIN and 2005 FTB 3539 on the check or money order. Enclose, but do **not** staple, the payment with the voucher and mail to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0551

**Note:** All checks or money orders must be payable in US dollars and drawn against a US financial institution.

### Private Mailbox (PMB) Number

If the corporation or exempt organization leases a private mailbox (PMB) from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

## Penalties and Interest

- If the corporation or exempt organization fails to pay its total tax liability by the original due date, a late payment penalty plus interest will be added to the tax due.
- If the corporation or exempt organization does not file its CA tax return by the extended due date, or the corporation's powers, rights, and privileges have been suspended or forfeited by the FTB or the California SOS, as of the original due date, the automatic extension will not apply and a delinquency penalty plus interest will be assessed from the original due date of the CA tax return.
- If the corporation or exempt organization is required to remit all of its payments through EFT and pays by another method, a 10% non-compliance penalty will be assessed.

## Combined Reports

- If members of a combined unitary group have made or intend to make an election to file a combined unitary group single return, only

the key corporation designated to file the return should submit form FTB 3539. The key corporation must include payment of at least the minimum franchise tax for each corporation of the combined unitary group that is subject to the franchise tax in California.

- If members of a combined unitary group intend to file separate returns with the FTB, each member must submit its own form FTB 3539 if there is an amount entered on line 3 of the Tax Payment Worksheet.
- If any member of a combined unitary group meets the requirements for mandatory EFT, all members must remit their payments through EFT, regardless of their filing election.

## Exempt Organizations

- **Form 100 filers:**  
The due dates for corporations also apply to the filing of Form 100, California Corporation Franchise or Income Tax Return, by political action committees and exempt homeowners' associations.  
Political action committees and exempt homeowners' associations that file Form 100 should not enter the minimum franchise tax on line 1 of the Tax Payment Worksheet.
- **Form 199 Filers:**  
Generally, Form 199, California Exempt Organization Annual Information Return, requires a \$10 filing fee to be paid with the return on the original or extended due date.  
Use form FTB 3539 only if paying the fee early. Enter the amount of the fee on line 3 of the Tax Payment Worksheet.
- **Form 109 Filers:**  
The due dates for filing Form 109, California Exempt Organization Business Income Return, depend on the type of organization filing the return. Employees' pension trusts and IRAs (including education IRAs) must file on or before the 15th day of the 4th month after the close of their taxable year. All other exempt organizations (except homeowners' associations and political organizations) must file on or before the 15th day of the 5th month after the close of their taxable year.

## TAX PAYMENT WORKSHEET FOR YOUR RECORDS

1	Total tentative tax. Include alternative minimum tax if applicable. See instructions .....	1		
2	Estimated tax payments including prior year overpayment applied as a credit .....	2		
3	Tax Due. If line 2 is more than line 1, see instructions. If line 1 is more than line 2, subtract line 2 from line 1. Enter the result here and on form FTB 3539 .....	3		

## How to Complete the Tax Payment Worksheet

### Line 1

Enter the total tentative tax, including the alternative minimum tax, if applicable, for the taxable year.

- If filing Form 100, Form 100W, or Form 100S, and subject to franchise tax, the tentative tax may not be less than the minimum franchise tax and Qualified Subchapter S Subsidiary (QSub) annual tax (S corporations only).
- If filing Form 100, Form 100W, or Form 100S, and subject to income tax, enter the amount of tax. Corporations subject to the income tax do not pay the minimum franchise tax.
- If a corporation incorporates or qualifies to do business in California on or after January 1, 2000, the corporation will compute its tax liability for the first taxable year by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year.
- If filing Form 109, enter the amount of tax. Form 109 filers are not subject to the minimum franchise tax.

### Line 2

Enter the estimated tax payments, including prior year overpayment applied as a credit. S corporations include any QSub annual tax payments.

### Line 3

**Tax due.** If the amount on line 1 is more than the amount on line 2, then the corporation's or exempt organization's tentative tax is more than its payments and credits. The corporation or exempt organization has tax due.

Subtract line 2 from line 1. Enter this amount on line 3 and on form FTB 3539.

If the amount on line 2 is more than the amount on line 1, the payments and credits are more than the tentative tax. The corporation or exempt organization has no tax due. **DO NOT SEND THE PAYMENT VOUCHER.** The corporation or exempt organization will automatically qualify for an extension if the California tax return is filed by the extended due date and the corporation or exempt organization is in good standing with the FTB and California SOS.



**2005**

# Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations

**3805Q**

Attach to your California tax return (Form 100, Form 100S, Form 100W, or Form 109).

Corporation name

California corporation number

During the year the corporation incurred the NOL, the corporation was a(n): ☐ C Corporation ☐ S Corporation☐ Exempt Organization ☐ Limited Liability Company (electing to be taxed as a corporation)

FEIN

If the corporation previously filed California tax returns under another corporate name, enter the corporation name and California corporation number:

**Note:** If the corporation is included in a combined report of a unitary group, see instructions, General Information C, Combined Reporting.**PART I Current year NOL.** If the corporation does not have a current year NOL, go to Part II.**1** Net loss from Form 100, line 19; Form 100W, line 19; Form 100S, line 16; or Form 109, line 2.Enter as a positive number **1****2** 2005 disaster loss from line 1. Enter as a positive number **2****3** Subtract line 2 from line 1. If zero or less, enter -0- and see instructions **3****4 a** Enter the amount of the loss incurred by a new business included in line 3 **4a****b** Enter the amount of the loss incurred by an eligible small business included in line 3 **4b****c** Add line 4a and line 4b **4c****5** General NOL. Subtract line 4c from line 3 **5****6** 2005 NOL carryover. Add line 2, line 4c, and line 5. See instructions **6****PART II NOL carryover and disaster loss carryover limitations. See Instructions.****1** Net income (loss) – Enter the amount from Form 100, line 19; Form 100W, line 19; Form 100S, line 16less line 17 (but not less than -0-); or Form 109, line 2 **(g)** Available balance**Prior Year NOLs**

(a) Year of loss	(b) Code – See instructions for Part II, column (b)	(c) Type of NOL – See below	(d) Initial loss	(e) Carryover from 2004	(f) Amount used in 2005	(g) Available balance	(h) Carryover to 2006 col. (e) - col. (f)
<b>2</b>							

**Current Year NOLs**

(a) Year of loss	(b) Code – See instructions for Part II, column (b)	(c) Type of NOL – See below	(d) Initial loss	(e) Carryover from 2004	(f) Amount used in 2005	(g) Available balance	(h) Carryover to 2006 col. (e) - col. (f)
<b>3 2005</b>		<b>DIS</b>					col. (d) - col. (f)
<b>4 2005</b>							
<b>2005</b>							
<b>2005</b>							
<b>2005</b>							

**Type of NOL:** General (GEN), New Business (NB), Eligible Small Business (ESB), Title 11 (T11), or Disaster (DIS).**PART III 2005 NOL deduction****1** Total the amounts in Part II, line 2, column (f) **1****2** Enter the total amount from line 1 that represents disaster loss carryover deduction here and on Form 100, line 22;Form 100W, line 22; or Form 100S, line 20. Form 109 filers enter -0- **2****3** Subtract line 2 from line 1. Enter this amount on Form 100, line 20; Form 100W, line 20; Form 100S, line 18;or Form 109, line 4 **3**

# 2005 Instructions for Form FTB 3805Q

## Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and to the California Revenue and Taxation Code (R&TC).

### General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, please visit our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

The general NOL carryover percentage varies. For taxable years beginning on or after:

- January 1, 2004, 100% of the NOL may be carried forward;
- January 1, 2002, and before January 1, 2004, 60% of the NOL may be carried forward; and
- January 1, 2000, and before January 1, 2002, 55% of the NOL may be carried forward.

Also, any NOL incurred in any taxable year beginning on or after January 1, 2000, may be carried forward for 10 years.

For taxable years that began in 2002 and 2003, California had suspended the NOL carryover deduction. Taxpayers continued to compute and carryover an NOL during the suspension period. However, the deduction for disaster losses was not affected by the NOL suspension rules.

The carryover period for an NOL incurred in years:

- beginning before January 1, 2002, have been extended for two years.
- beginning on or after January 1, 2002, and before January 1, 2003, have been extended for one year.

In 1998, the Franchise Tax Board (FTB) implemented the new principal business activity (PBA) code chart that is based on the North American Industry Classification System (NAICS) in the corporate tax booklets. However, the California R&TC still uses the

Standard Industrial Codes (SIC) for purposes of the new business and eligible small business NOL.

### A Purpose

Use form FTB 3805Q to figure the current year NOL and to limit NOL and disaster loss carryover deductions.

**Note:** Exempt trusts should use form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts.

The California NOL is figured the same way as the federal NOL, except that for California:

- An NOL may be carried over only to future years (no carrybacks are allowed); and
- The carryover period and the amount to be carried over differ from federal allowances.

See General Information F, Types of NOLs, for more information.

**Note:** If the corporation has a current year NOL under R&TC Section 24416.2, 24416.5, 24416.6, and 24416.7 (relating to Pierce's disease, EZ, LAMBRA, or TTA NOLs), the corporation **must elect** on its return for the taxable year in which the loss is incurred to carryover the loss either under that section or the loss under R&TC Section 24416 (relating to general NOLs). If the corporation elects to compute the NOL under R&TC Section 24416.1(c) (relating to Pierce's disease, EZ, LAMBRA, or TTA NOLs), the corporation must:

- Make the election in a statement attached to the original return; and
- Use the applicable Pierce's disease form or economic development area (EDA) form to calculate the NOL.

The election is irrevocable. Get form FTB 3805D, form FTB 3805Z, form FTB 3807, or form FTB 3809 for more information.

### B Apportioning Corporations

The loss carryover for a corporation that apportions income is the amount of the corporation's loss, if any, after adding income or loss apportioned to California with income or loss allocable to California under Chapter 17 of the Corporation Tax Law. The loss carryover may be deducted from income of that corporation apportioned and allocable to California in subsequent years.

### C Combined Reporting

Corporations that are members of a unitary group filing a single return must use intrastate apportionment, separately computing the loss carryover for each corporation in the group using its individual apportionment factors

(R&TC Section 25108). Complete a separate form FTB 3805Q for **each** taxpayer included in the combined report. Attach the separate forms for each taxpayer member **behind** the combined form FTB 3805Q for all members.

Unlike the loss treatment for a federal consolidated return, a California loss carryover for one member in a combined report may not be applied to the income of another member included in the combined report. Get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report, for more information.

### D Water's-Edge

For Water's-edge taxpayers, R&TC Section 24416(c) imposes a limitation on the NOL deduction if the NOL is generated during a non-Water's-edge tax year. The NOL carryover is limited to the lesser amount as re-determined by computing the income and factors of the original worldwide combined reporting group as if the Water's-edge election had been in force for the year of the loss. If R&TC Section 24416(c) applies; the NOL carryover for each corporation may be decreased, but not increased.

### E S Corporations

An S corporation is allowed to carry over a loss that is incurred during a year in which it has in effect a valid election to be treated as an S corporation. The loss is also separately calculated under the pass-through rules and passed to the shareholders in the year incurred and is taken into account in determining each shareholder's NOL carryover, if any.

If a corporation changes from a C corporation to an S corporation, the loss incurred while the corporation was a C corporation may not be applied to offset income subject to the 1.5% tax imposed on an S corporation. However, losses incurred while the corporation was a C corporation may be applied against the built-in gains which are subject to tax. If the corporation incurred losses while it was a C corporation and an S corporation, and the S corporation is using C corporation losses to offset its built-in gains, the corporation must complete two forms FTB 3805Q and attach them to Form 100S, California S Corporation Franchise or Income Tax Return. The unused losses incurred while the corporation was a C corporation are "unavailable" except as provided for above unless and until the S corporation reverts back to a C corporation or the carryover period expires. However, if an S corporation changes to a C corporation, any S corporation NOLs are lost.

## F Types of NOLs

The table below shows the types of NOLs available, a description, and the percentages and carryover periods for each type of loss.

## Specific Line Instructions

### Part I

Use Part I of this form to figure the current year NOL eligible for carryover.

**Line 2** – If the corporation incurred a disaster loss during 2005, enter the amount of the loss on this line. Enter as a positive number.

**Line 3** – If the amount is zero or less, the corporation does not have a current year

**\*Note:** For NOL carryovers suspended during 2002 and 2003 tax year, the carryover period is extended by two years for losses incurred before January 1, 2002, and by one year for losses incurred after January 1, 2002, and before January 1, 2003.

Type of NOL and Description	Taxable Year NOL Incurred	NOL Carried Over	Carryover* Period
<b>General NOL (GEN)</b> Available as a result of a loss incurred in years after 1986 and allowed under R&TC Section 24416. Does not include losses incurred from activities that qualify as a new business, an eligible small business, EZ, LARZ, LAMBRA, TTA, disaster loss, or Pierce's disease.	On or after 01/01/2004 2002-2003 2000-2001 1997-1999 1987-1996	100% 60% 55% 50% None	10 Years 10 Years 10 Years 5 Years Expired
<b>Disaster Losses (DIS)</b> Casualty losses in areas of California declared by the President of the United States or the Governor of California to be in a state of disaster. An election may be made under IRC Section 165(i) permitting the disaster loss to be taken against the previous year's income. If the corporation made this election, see current year NOLs, Part II, line 3 and federal Form 4684 instructions for when the election must be filed. If special legislation is enacted under R&TC Section 24347.5 and the specified disaster loss exceeds income in the year it is claimed, 100% of the excess may be carried over for up to five taxable years. If any excess loss remains after the five-year period, 50% of that remaining loss may be carried over for up to 10 additional taxable years for losses occurred in any taxable year beginning before January 1, 2000; 55% for losses incurred in any taxable year beginning on or after January 1, 2000, and before January 1, 2002; 60% for losses incurred in any taxable year beginning on or after January 1, 2002, and before January 1, 2004; or 100% for losses incurred in any taxable year beginning on or after January 1, 2004.	See "List of events that declared as disasters on next page.	100%  See instructions	First 5 Years  10 Years Thereafter
<b>New Business NOL (NB)</b> Get FTB Legal Ruling 96-5 for more information. Incurred by a trade or business that first commenced in California on or after January 1, 1994, during the first three years of business, 100% of an NOL may be carried over for 10 years, but only to the extent of the net loss from the new business. The term "new business" also includes any taxpayer engaged in biopharmaceutical activities or other biotechnology activities described in Codes 2833 to 2836 of the SIC Manual. It also includes any taxpayer that has not received regulatory approval for any product from the United States Food and Drug Administration. See R&TC Section 24416(g)(7)(A) for more information. If a taxpayer's NOL exceeds the net loss from the new business, the excess may be carried over as a general NOL. If a taxpayer acquires assets of an existing trade or business which is doing business in California, the trade or business conducted by the taxpayer or related person is not a new business if the fair market value (FMV) of the acquired assets exceeds 20% of the FMV of the total assets of the trade or business conducted by the taxpayer or any related person. To determine whether the acquired assets exceed 20% of the total assets, include only the assets that continue to be used in the same trade or business activity as were used immediately prior to the acquisition. For this purpose, the same trade or business activity means the same division classification listed in the SIC Manual. If a taxpayer or related person has been engaged in a trade or business in California within the preceding 36 months and then starts an additional trade or business in California, the additional trade or business qualifies as a new business only if the activity is classified under a different division classification of the SIC Manual. Business activities conducted by the taxpayer or related persons wholly outside California are disregarded in determining whether the trade or business conducted within California is a new business. Related persons are defined in IRC Sections 267 or 318.	On or after 01/01/2000  Before 01/01/2000  Year of business  Year 1 Year 2 Year 3	100% For the first three years of business    100% 100% 100%	10 Years     8 Years 7 Years 6 Years
<b>Eligible Small Business (ESB)</b> Get Legal Ruling 96-5 for more information. Incurred in a trade or business activity that has gross receipts, less returns and allowances, of less than \$1 million during the taxable year. 100% of an NOL may be carried over, but only to the extent of the net loss from the eligible small business. If a taxpayer's NOL exceeds the net loss from an eligible small business, the excess may be carried over as a general NOL. The corporation should use the same SIC Code division classifications described in the new business NOL section to determine what constitutes a trade or business activity.	On or after 01/01/2000  On or after 01/01/1994 and before 01/01/2000	100%  100%	10 Years  5 Years
<b>Title 11 Bankruptcy (T11)</b> If the corporation is claiming an NOL carryover deduction under the provisions of R&TC Section 24416(e)(4)(A), enter the carryover amount on Part II, line 2.	1987-1993	50%	10 Years

general NOL. Go to Part II for computation of general NOL carryovers, the current year disaster loss, and carryover from disaster losses.

**Line 6** – Go to Part II, Current Year NOLs, to record the corporation's 2005 NOL carryover to 2006. Complete columns (b), (c), (d), and (h) only, for each type of loss that the corporation incurred.

If the corporation has an eligible qualified new business or a small business and the NOL is greater than the amount of net loss from such a business, use the general NOL first. If the corporation operates one or more new businesses and one or more eligible small businesses, determine the amount of the loss attributable to the new business(es), the small business(es), and the general NOL in the following manner. The NOL is first treated as a new business NOL to the extent of the loss from the new business. Any remaining NOL is then treated as an eligible small business NOL to the extent of the loss from the eligible small business. Any further remaining NOL is treated as an NOL under the general rules.

## Part II

Use Part II to limit current year disaster loss and NOL carryover deductions to current year income and to record all of the corporation's loss carryover information.

If the corporation has losses from more than one source and/or more than one category, the corporation must compute the allowable NOL carryover for **each** loss separately.

### When to use an NOL carryover

Use the corporation's NOLs and disaster losses in the order the losses were incurred. There is no requirement to deduct NOL carryovers before disaster loss carryovers.

### Prior Year NOLs

**Column (a)** – Enter the year the loss was incurred.

**Column (b)** – If the loss is due to a disaster, enter the disaster code from the list below. If the loss is from a new business or eligible small business, enter the SIC Code for the new business or eligible small business from the Standard Industrial Classification Manual. DO NOT enter the code from the PBA chart available in the 2005 Form 100, Form 100W, or Form 100S booklets. If the loss was from an S corporation, enter the entity's federal employer identification number from Schedule K-1 (100S).

List of events that have been declared disasters:

Year	Code	Event
2004	26	Shasta County Wildfires
2005 2004	25	Southern California flooding, debris flows, and mudslides
2004	24	San Joaquin Levee Break
2003	23	San Simeon earthquake
2003	22	Southern California fires and other related casualties
2000	21	Napa County earthquake
1999	20	Wildfires and other related casualties*
1999	19	Winter Freeze 98/99
1998	18	El Niño 98
1997	17	Disaster floods 96/97
1996	16	Firestorms 96*
1995	15	Storms, flooding, and other related casualties
1994	14	San Luis Obispo fire and other related casualties
1994	13	Los Angeles, Orange, and Ventura County earthquake and other related casualties
1993	12	Storms, floods, and other related casualties
1992	11	Wildfires and other related casualties in Calaveras and Shasta Counties
1992	10	San Bernardino County earthquake and other related casualties
1992	9	Riots, arson, and related casualties in California during April and May
1992	8	Humboldt County earthquake and related casualties
1992	7	Storms, floods, and other related casualties
1991	6	Oakland/Berkeley fire and other related casualties
1990	5	Santa Barbara fires and other related casualties
1989	4	Bay Area earthquake and other related casualties
1987	3	Forest fires, October earthquake, and other related casualties
1986	2	Storms, floods, and other related casualties
1985	1	Forest fires and related casualties occurring in California (expired)

\*Carryover period and percentage are limited to the NOL rules. No special legislation was enacted.

**Column (c)** – Enter the type of NOL from the table in General Information F, Types of NOLs. If using a Pierce's disease, or an EDA NOL, get the applicable form for the NOL type.

**Column (d)** – Enter 100% of the initial loss for the year given in column (a).

**Column (e)** – Enter the NOL carryover amount from the 2004 form FTB 3805Q, Part II, column (h).

**Column (f)** – Enter the smaller of the amount in column (e) or the amount in column (g) of the previous line.

**Column (g)** – Enter the result of subtracting column (f) from the balance in column (g) of the previous line.

**Column (h)** – Subtract the amount in column (f) from the amount in column (e) and enter the result.

### Current Year NOLs

**Note:** If a disaster loss occurs between the date of the publication and the end of the taxable year, go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) for an updated version of this form, which will include information for any subsequent disaster loss. Then follow the line 3 instructions.

### Line 3 – Current year Disaster Loss

If the corporation did not elect to deduct the current year disaster loss in the prior year:

- In column (d), enter your 2005 disaster loss from Part I, line 2.
- In column (f), enter the disaster loss used in 2004.
- In column (h), enter column (d) less column (f).

If the corporation elected to deduct the 2005 disaster loss on the 2004 tax return, and the corporation has an excess amount to be carried over to 2005, enter the carryover amount in Part II, line 2, column (e). Use the Prior Year NOL instructions for column (a) through column (h) except:

- In column (a), enter 2005;
- In column (b), enter the new disaster code; and
- In column (d), enter the total disaster loss incurred in 2005.



CREDIT NAME	CODE	DESCRIPTION
<b>Current Credits</b>		
Community Development Financial Institution Deposits – Obtain certification from: CALIFORNIA ORGANIZED INVESTMENT NETWORK (COIN) DEPARTMENT OF INSURANCE 300 CAPITOL MALL, SUITE 1600 SACRAMENTO CA 95814 <a href="http://www.insurance.ca.gov">www.insurance.ca.gov</a>	209	20% of qualified investments made into a community development financial institution
Disabled Access for Eligible Small Businesses – FTB 3548	205	Similar to the federal credit, but limited to \$125 per eligible small business, and based on 50% of qualified expenditures that do not exceed \$250
Donated Agricultural Products Transportation – FTB 3547	204	50% of the costs paid or incurred for the transportation of agricultural products donated to nonprofit charitable organizations
Employer Child Care Contribution – FTB 3501	190	Employer: 30% of contributions to a qualified plan
Employer Child Care Program – FTB 3501	189	Employer: 30% of the cost of establishing a child care program or constructing a child care facility
Enhanced Oil Recovery – FTB 3546	203	1/3 of the similar federal credit but limited to qualified enhanced oil recovery projects located within California
Enterprise Zone Hiring & Sales or Use Tax – FTB 3805Z	176	Business incentives for trade or business activities conducted within an enterprise zone
Environmental Tax – FTB 3511	218	Five cents (\$.05) for each gallon of ultra low sulfur diesel fuel produced during the taxable year by a small refiner at any facility located in this state
Farmworker Housing – Construction	207	50% of qualified costs paid or incurred to construct or rehabilitate qualified farmworkers housing
Farmworker Housing – Loan	208	Banks and financial corporations: 50% of foregone interest income on qualified farmworker housing loans
Obtain certification from: FARMWORKER HOUSING ASSISTANCE PROGRAM, CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE 915 CAPITOL MALL, ROOM 485 SACRAMENTO CA 95814 <a href="http://www.treasurer.ca.gov">www.treasurer.ca.gov</a>		
Joint Strike Fighter Wage – FTB 3534	215	A percentage of qualified wages paid or incurred in California in connection with the construction of a joint strike fighter
Joint Strike Fighter Property – FTB 3534	216	10% of the cost of property placed in service in California for ultimate use in a joint strike fighter
Local Agency Military Base Recovery Area Hiring & Sales or Use Tax – FTB 3807	198	Business incentives for trade or business activities conducted within a local agency military base recovery area
Low-Income Housing – FTB 3521	172	Similar to the federal credit but limited to low-income housing in California
Manufacturing Enhancement Area – FTB 3808	211	Hiring Credit for Manufacturing Enhancement Area
Natural Heritage Preservation – FTB 3503	213	55% of the fair market value of the qualified contribution of property donated to the state, any local government, or any nonprofit organization designated by a local government
Prior Year Alternative Minimum Tax – FTB 3510	188	Must have paid alternative minimum tax in a prior year and have no alternative minimum tax liability in the current year
Prison Inmate Labor – FTB 3507	162	10% of wages paid to prison inmates
Research – FTB 3523	183	Similar to the federal credit but limited to costs for research activities in California
Rice Straw	206	\$15 per ton of rice straw grown in California
Obtain certification from: DEPARTMENT OF FOOD AND AGRICULTURE 1220 N STREET, ROOM A244 SACRAMENTO CA 95814 <a href="http://www.cdfa.ca.gov">www.cdfa.ca.gov</a>		
Solar or Wind Energy System – FTB 3508	217	A credit equal to the lesser of 7.5% of the net cost paid to purchase and install a solar or wind energy system for the production of electricity, or the \$4.50 per rated watt of generating capacity of that system
Targeted Tax Area Hiring & Sales or Use Tax – FTB 3809	210	Business incentives for trade or business activities conducted within a targeted tax area

**Repealed Credits with Carryover Provisions:** The expiration dates for these credits have passed. However, these credits had carryover provisions. You may claim these credits if there is a carryover available from prior years. If you are not required to complete Schedule P (100), get form FTB 3540, Credit Carryover Summary, to figure your credit carryover to future years.

Agricultural Products	175	Energy Conservation	182	Ridesharing	171
Commercial Solar Electric System	196	Los Angeles Revitalization Zone Hiring		Salmon & Steelhead Trout Habitat	
Commercial Solar Energy	181	& Sales or Use Tax	159	Restoration	200
Contribution of Computer Software	202	Low-Emission Vehicles	160	Solar Energy	180
Employee Ridesharing – Large employer	191	Manufacturers' Investment	199	Solar Pump	179
Employer Ridesharing – Small employer	192	Orphan Drug	185	Technology Property Contributions	201
Employer Rideshare – Transit	193	Recycling Equipment	174		

## Principal Business Activity Codes

This list of principal business activities and their associated codes is designed to classify a business by the type of activity in which it is engaged to facilitate the administration of the California Revenue and Taxation Code. For taxable years beginning on or after January 1, 1998, these principal business activity codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the company derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (Schedule F, line 1a) plus all other income (Side 3, Schedule F, lines 4 through 10). If the company purchases raw materials and supplies them to a subcontractor to produce the finished product, but retains title to the product, the company is considered a manufacturer and must use one of the manufacturing codes (311110-339900).

Once the principal business activity is determined, entries must be made on Form 100W, Question E. For the business activity code number, enter the six-digit code selected from the list below. On the next line enter a brief description of the company's business activity. Finally, enter a description of the principal product or service of the company on the next line.

### Agriculture, Forestry, Fishing, and Hunting

#### Code

#### Crop Production

- 111100 Oilseed & Grain Farming
- 111210 Vegetable & Melon Farming (including potatoes & yams)
- 111300 Fruit & Tree Nut Farming
- 111400 Greenhouse, Nursery, & Floriculture Production
- 111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet, & all other crop farming)

#### Animal Production

- 112111 Beef Cattle Ranching & Farming
- 112112 Cattle Feedlots
- 112120 Dairy Cattle & Milk Production
- 112210 Hog & Pig Farming
- 112300 Poultry & Egg Production
- 112400 Sheep & Goat Farming
- 112510 Animal Aquaculture (including shellfish & finfish farms & hatcheries)
- 112900 Other Animal Production

#### Forestry and Logging

- 113110 Timber Tract Operations
- 113210 Forest Nurseries & Gathering of Forest Products
- 113310 Logging

#### Fishing, Hunting and Trapping

- 114110 Fishing
- 114210 Hunting & Trapping

#### Support Activities for Agriculture and Forestry

- 115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)
- 115210 Support Activities for Animal Production
- 115310 Support Activities for Forestry

#### Mining

- 211110 Oil & Gas Extraction
- 212110 Coal Mining
- 212200 Metal Ore Mining
- 212310 Stone Mining & Quarrying
- 212320 Sand, Gravel, Clay, & Ceramic & Refractory

#### Minerals Mining & Quarrying

- 212390 Other Nonmetallic Mineral Mining & Quarrying
- 213110 Support Activities for Mining

#### Utilities

- 221100 Electric Power Generation, Transmission & Distribution
- 221210 Natural Gas Distribution
- 221300 Water, Sewage, & Other Systems
- 221500 Combination Gas and Electric

### Construction

#### Code

#### Construction of Buildings

- 236110 Residential Building Construction
- 236200 Nonresidential Building Construction

#### Heavy and Civil Engineering Construction

- 237100 Utility System Construction
- 237210 Land Subdivision
- 237310 Highway, Street, & Bridge Construction
- 237990 Other Heavy & Civil Engineering Construction

#### Specialty Trade Contractors

- 238100 Foundation, Structure, & Building Exterior Contractors (including framing carpentry, masonry, glass, roofing, & siding)
- 238210 Electrical Contractors
- 238220 Plumbing, Heating, & Air-Conditioning Contractors
- 238290 Other Building Equipment Contractors
- 238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, & finish carpentry)
- 238900 Other Specialty Trade Contractors (including site preparation)

### Manufacturing

#### Food Manufacturing

- 311110 Animal Food Mfg
- 311200 Grain & Oilseed Milling
- 311300 Sugar & Confectionery Product Mfg
- 311400 Fruit & Vegetable Preserving & Specialty Food Mfg
- 311500 Dairy Product Mfg
- 311610 Animal Slaughtering and Processing
- 311710 Seafood Product Preparation & Packaging
- 311800 Bakeries & Tortilla Mfg
- 311900 Other Food Mfg (including coffee, tea, flavorings, & seasonings)

#### Beverage and Tobacco Product Manufacturing

- 312110 Soft Drink & Ice Mfg
- 312120 Breweries
- 312130 Wineries
- 312140 Distilleries
- 312200 Tobacco Manufacturing

#### Textile Mills and Textile Product Mills

- 313000 Textile Mills
- 314000 Textile Product Mills

#### Apparel Manufacturing

- 315100 Apparel Knitting Mills

#### Code

- 315210 Cut & Sew Apparel Contractors
- 315220 Men's & Boys' Cut & Sew Apparel Mfg
- 315230 Women's & Girls' Cut & Sew Apparel Mfg
- 315290 Other Cut & Sew Apparel Mfg
- 315990 Apparel Accessories & Other Apparel Mfg

#### Leather and Allied Product Manufacturing

- 316110 Leather & Hide Tanning & Finishing
- 316210 Footwear Mfg (including rubber & plastics)
- 316990 Other Leather & Allied Product Mfg

#### Wood Product Manufacturing

- 321110 Sawmills & Wood Preservation
- 321210 Veneer, Plywood, & Engineered Wood Product Mfg
- 321900 Other Wood Product Mfg

#### Paper Manufacturing

- 322100 Pulp, Paper, & Paperboard Mills
- 322200 Converted Paper Product Mfg

#### Printing and Related Support Activities

- 323100 Printing & Related Support Activities

#### Petroleum and Coal Products Manufacturing

- 324110 Petroleum Refineries (including integrated)
- 324120 Asphalt Paving, Roofing, & Saturated Materials Mfg
- 324190 Other Petroleum & Coal Products Mfg

#### Chemical Manufacturing

- 325100 Basic Chemical Mfg
- 325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg
- 325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg
- 325410 Pharmaceutical & Medicine Mfg
- 325500 Paint, Coating, & Adhesive Mfg
- 325600 Soap, Cleaning Compound, & Toilet Preparation Mfg
- 325900 Other Chemical Product & Preparation Mfg

#### Plastics and Rubber Products Manufacturing

- 326100 Plastics Product Mfg
- 326200 Rubber Product Mfg

#### Nonmetallic Mineral Product Manufacturing

- 327100 Clay Product & Refractory Mfg
- 327210 Glass & Glass Product Mfg
- 327300 Cement & Concrete Product Mfg
- 327400 Lime & Gypsum Product Mfg
- 327900 Other Nonmetallic Mineral Product Mfg

#### Primary Metal Manufacturing

- 331110 Iron & Steel Mills & Ferroalloy Mfg
- 331200 Steel Product Mfg from Purchased Steel
- 331310 Alumina & Aluminum Production & Processing
- 331400 Nonferrous Metal (except Aluminum) Production & Processing
- 331500 Foundries

#### Fabricated Metal Product Manufacturing

- 332110 Forging & Stamping
- 332210 Cutlery & Handtool Mfg
- 332300 Architectural & Structural Metals Mfg
- 332400 Boiler, Tank, & Shipping Container Mfg
- 332510 Hardware Mfg
- 332610 Spring & Wire Product Mfg
- 332700 Machine Shops, Turned Product, & Screw, Nut, & Bolt Mfg

#### Code

- 332810 Coating, Engraving, Heat Treating, & Allied Activities
- 332900 Other Fabricated Metal Product Mfg

#### Machinery Manufacturing

- 333100 Agriculture, Construction, & Mining Machinery Mfg
- 333200 Industrial Machinery Mfg
- 333310 Commercial & Service Industry Machinery Mfg
- 333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg
- 333510 Metalworking Machinery Mfg
- 333610 Engine, Turbine, & Power Transmission Equipment Mfg
- 333900 Other General Purpose Machinery Mfg

#### Computer and Electronic Product Manufacturing

- 334110 Computer & Peripheral Equipment Mfg
- 334200 Communications Equipment Mfg
- 334310 Audio & Video Equipment Mfg
- 334410 Semiconductor & Other Electronic Component Mfg
- 334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg
- 334610 Manufacturing & Reproducing Magnetic & Optical Media

#### Electrical Equipment, Appliance, and Component Manufacturing

- 335100 Electric Lighting Equipment Mfg
- 335200 Household Appliance Mfg
- 335310 Electrical Equipment Mfg
- 335900 Other Electrical Equipment & Component Mfg

#### Transportation Equipment Manufacturing

- 336100 Motor Vehicle Mfg
- 336210 Motor Vehicle Body & Trailer Mfg
- 336300 Motor Vehicle Parts Mfg
- 336410 Aerospace Product & Parts Mfg
- 336510 Railroad Rolling Stock Mfg
- 336610 Ship & Boat Building
- 336990 Other Transportation Equipment Mfg

#### Furniture and Related Product Manufacturing

- 337000 Furniture & Related Product Manufacturing

#### Miscellaneous Manufacturing

- 339110 Medical Equipment & Supplies Mfg
- 339900 Other Miscellaneous Manufacturing

### Wholesale Trade

#### Merchant Wholesalers, Durable Goods

- 423100 Motor Vehicle & Motor Vehicle Parts & Supplies
- 423200 Furniture & Home Furnishings
- 423300 Lumber & Other Construction Materials
- 423400 Professional & Commercial Equipment & Supplies
- 423500 Metal & Mineral (except Petroleum)
- 423600 Electrical & Electronic Goods
- 423700 Hardware, & Plumbing & Heating Equipment & Supplies
- 423800 Machinery, Equipment, & Supplies
- 423910 Sporting & Recreational Goods & Supplies
- 423920 Toy & Hobby Goods & Supplies
- 423930 Recyclable Materials
- 423940 Jewelry, Watch, Precious Stone, & Precious Metals
- 423990 Other Miscellaneous Durable Goods

Code	Code	Code	Code
<b>Merchant Wholesalers, Nondurable Goods</b>	<b>Clothing and Clothing Accessories Stores</b>	<b>Support Activities for Transportation</b>	<b>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</b>
424100 Paper & Paper Products	448110 Men's Clothing Stores	488100 Support Activities for Air Transportation	523110 Investment Banking & Securities Dealing
424210 Drugs & Druggists' Sundries	448120 Women's Clothing Stores	488210 Support Activities for Rail Transportation	523120 Securities Brokerage
424300 Apparel, Piece Goods, & Notions	448130 Children's & Infants' Clothing Stores	488300 Support Activities for Water Transportation	523130 Commodity Contracts Dealing
424400 Grocery & Related Products	448140 Family Clothing Stores	488410 Motor Vehicle Towing	523140 Commodity Contracts Brokerage
424500 Farm Product Raw Materials	448150 Clothing Accessories Stores	488490 Other Support Activities for Road Transportation	523210 Securities & Commodity Exchanges
424600 Chemical & Allied Products	448190 Other Clothing Stores	488510 Freight Transportation Arrangement	523900 Other Financial Investment Activities (including portfolio management & investment advice)
424700 Petroleum & Petroleum Products	448210 Shoe Stores	488990 Other Support Activities for Transportation	
424800 Beer, Wine, & Distilled Alcoholic Beverages	448310 Jewelry Stores		<b>Insurance Carriers and Related Activities</b>
424910 Farm Supplies	448320 Luggage & Leather Goods Stores	<b>Couriers and Messengers</b>	524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers
424920 Book, Periodical, & Newspapers	<b>Sporting Goods, Hobby, Book, and Music Stores</b>	492110 Couriers	524150 Direct Insurance & Reinsurance (except Life, Health, & Medical) Carriers
424930 Flower, Nursery Stock, & Florists' Supplies	451110 Sporting Goods Stores	492210 Local Messengers & Local Delivery	524210 Insurance Agencies & Brokerages
424940 Tobacco & Tobacco Products	451120 Hobby, Toy, & Game Stores	<b>Warehousing and Storage</b>	524290 Other Insurance Related Activities (including third-party administration of insurance and pension funds)
424950 Paint, Varnish, & Supplies	451130 Sewing, Needlework, & Piece Goods Stores	493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units)	
424990 Other Miscellaneous Nondurable Goods	451140 Musical Instrument & Supplies Stores		<b>Funds, Trusts, and Other Financial Vehicles</b>
<b>Wholesale Electronic Markets and Agents and Brokers</b>	451211 Book Stores	<b>Information</b>	525100 Insurance & Employee Benefit Funds
425110 Business to Business Electronic Markets	451212 News Dealers & Newsstands	<b>Publishing Industries (except Internet)</b>	525910 Open-End Investment Funds (Form 1120-RIC)
425120 Wholesale Trade Agents & Brokers	451220 Prerecorded Tape, Compact Disc, & Record Stores	511110 Newspaper Publishers	525920 Trusts, Estates, & Agency Accounts
<b>Retail Trade</b>	<b>General Merchandise Stores</b>	511120 Periodical Publishers	525930 Real Estate Investment Trusts (Form 1120-REIT)
<b>Motor Vehicle and Parts Dealers</b>	452110 Department stores	511130 Book Publishers	525990 Other Financial Vehicles (including closed-end investment funds)
441110 New Car Dealers	452900 Other General Merchandise Stores	511140 Directory & Mailing List Publishers	
441120 Used Car Dealers	<b>Miscellaneous Store Retailers</b>	511190 Other Publishers	"Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under <b>Management of Companies (Holding Companies)</b> on next page.
441210 Recreational Vehicle Dealers	453110 Florists	51210 Software Publishers	<b>Real Estate and Rental and Leasing</b>
441221 Motorcycle Dealers	453220 Gift, Novelty, & Souvenir Stores	<b>Motion Picture and Sound Recording Industries</b>	<b>Real Estate</b>
441222 Boat Dealers	453310 Used Merchandise Stores	512100 Motion Picture & Video Industries (except video rental)	531110 Lessors of Residential Buildings & Dwellings
441229 All Other Motor Vehicle Dealers	453910 Pet & Pet Supplies Stores	512200 Sound Recording Industries	531114 Cooperative Housing
441300 Automotive Parts, Accessories, & Tire Stores	453920 Art Dealers	<b>Broadcasting (except Internet)</b>	531120 Lessors of Nonresidential Buildings (except Miniwarehouses)
<b>Furniture and Home Furnishings Stores</b>	453930 Manufactured (Mobile) Home Dealers	515100 Radio & Television Broadcasting	531130 Lessors of Miniwarehouses & Self-Storage Units
442110 Furniture Stores	453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)	515210 Cable & Other Subscription Programming	531190 Lessors of Other Real Estate Property
442210 Floor Covering Stores	<b>Nonstore Retailers</b>	<b>Internet Publishing and Broadcasting</b>	531210 Offices of Real Estate Agents & Brokers
442291 Window Treatment Stores	454110 Electronic Shopping & Mail-Order Houses	516110 Internet Publishing & Broadcasting	531310 Real Estate Property Managers
442299 All Other Home Furnishings Stores	454210 Vending Machine Operators	<b>Telecommunications</b>	531320 Offices of Real Estate Appraisers
<b>Electronics and Appliance Stores</b>	454311 Heating Oil Dealers	517000 Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, & other telecommunications)	531390 Other Activities Related to Real Estate
443111 Household Appliance Stores	454312 Liquefied Petroleum Gas (Bottled Gas) Dealers	<b>Internet Service Providers, Web Search Portals, and Data Processing Services</b>	<b>Rental and Leasing Services</b>
443112 Radio, Television, & Other Electronics Stores	454319 Other Fuel Dealers	518111 Internet Service Providers	532100 Automotive Equipment Rental & Leasing
443120 Computer & Software Stores	454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)	518112 Web Search Portals	532210 Consumer Electronics & Appliances Rental
443130 Camera & Photographic Supplies Stores		518210 Data Processing, Hosting, & Related Services	532220 Formal Wear & Costume Rental
<b>Building Material and Garden Equipment and Supplies Dealers</b>	<b>Transportation and Warehousing</b>	<b>Other Information Services</b>	532230 Video Tape & Disc Rental
444110 Home Centers	<b>Air, Rail, and Water Transportation</b>	519100 Other Information Services (including news syndicates & libraries)	532290 Other Consumer Goods Rental
444120 Paint & Wallpaper Stores	481000 Air Transportation		532310 General Rental Centers
444130 Hardware Stores	482110 Rail Transportation	<b>Finance and Insurance</b>	532400 Commercial & Industrial Machinery & Equipment Rental & Leasing
444190 Other Building Material Dealers	483000 Water Transportation	<b>Depository Credit Intermediation</b>	<b>Lessors of Nonfinancial Intangible Assets (except copyrighted works)</b>
444200 Lawn & Garden Equipment & Supplies Stores	<b>Truck Transportation</b>	522110 Commercial Banking	533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)
<b>Food and Beverage Stores</b>	484110 General Freight Trucking, Local	522120 Savings Institutions	
445110 Supermarkets and Other Grocery (except Convenience) Stores	484120 General Freight Trucking, Long-distance	522130 Credit Unions	<b>Professional, Scientific, and Technical Services</b>
445120 Convenience Stores	484200 Specialized Freight Trucking	522190 Other Depository Credit Intermediation	<b>Legal Services</b>
445210 Meat Markets	<b>Transit and Ground Passenger Transportation</b>	<b>Nondepository Credit Intermediation</b>	541110 Offices of Lawyers
445220 Fish & Seafood Markets	485110 Urban Transit Systems	522210 Credit Card Issuing	541190 Other Legal Services
445230 Fruit & Vegetable Markets	485210 Interurban & Rural Bus Transportation	522220 Sales Financing	
445291 Baked Goods Stores	485310 Taxi Service	522291 Consumer Lending	
445292 Confectionery & Nut Stores	485320 Limousine Service	522292 Real Estate Credit (including mortgage bankers & originators)	
445299 All Other Specialty Food Stores	485410 School & Employee Bus Transportation	522293 International Trade Financing	
445310 Beer, Wine, & Liquor Stores	485510 Charter Bus Industry	522294 Secondary Market Financing	
<b>Health and Personal Care Stores</b>	485990 Other Transit & Ground Passenger Transportation	522298 All Other Nondepository Credit Intermediation	
446110 Pharmacies & Drug Stores	<b>Pipeline Transportation</b>	<b>Activities Related to Credit Intermediation</b>	
446120 Cosmetics, Beauty Supplies, & Perfume Stores	486000 Pipeline Transportation	522300 Activities Related to Credit Intermediation (including loan brokers, check clearing, & money transmitting)	
446130 Optical Goods Stores	<b>Scenic &amp; Sightseeing Transportation</b>		
446190 Other Health & Personal Care Stores	487000 Scenic & Sightseeing Transportation		
<b>Gasoline Stations</b>			
447100 Gasoline Stations (including convenience stores with gas)			



**Code****Accounting, Tax Preparation, Bookkeeping, and Payroll Services**

541211 Offices of Certified Public Accountants  
 541213 Tax Preparation Services  
 541214 Payroll Services  
 541219 Other Accounting Services

**Architectural, Engineering, and Related Services**

541310 Architectural Services  
 541320 Landscape Architecture Services  
 541330 Engineering Services  
 541340 Drafting Services  
 541350 Building Inspection Services  
 541360 Geophysical Surveying & Mapping Services  
 541370 Surveying & Mapping (except Geophysical) Services  
 541380 Testing Laboratories

**Specialized Design Services**

541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)

**Computer Systems Design and Related Services**

541511 Custom Computer Programming Services  
 541512 Computer Systems Design Services  
 541513 Computer Facilities Management Services  
 541519 Other Computer Related Services

**Other Professional, Scientific, and Technical Services**

541600 Management, Scientific, & Technical Consulting Services  
 541700 Scientific Research & Development Services  
 541800 Advertising & Related Services  
 541910 Marketing Research & Public Opinion Polling  
 541920 Photographic Services  
 541930 Translation & Interpretation Services  
 541940 Veterinary Services  
 541990 All Other Professional, Scientific, & Technical Services

**Management of Companies (Holding Companies)**

551111 Offices of Bank Holding Companies  
 551112 Offices of Other Holding Companies

**Administrative and Support and Waste Management and Remediation Services**

**Administrative and Support Services**  
 561110 Office Administrative Services  
 561210 Facilities Support Services  
 561300 Employment Services  
 561410 Document Preparation Services  
 561420 Telephone Call Centers  
 561430 Business Service Centers (including private mail centers & copy shops)  
 561440 Collection Agencies  
 561450 Credit Bureaus  
 561490 Other Business Support Services (including repossession services, court reporting, & stenotype services)

**Code**

561500 Travel Arrangement & Reservation Services  
 561600 Investigation & Security Services  
 561710 Exterminating & Pest Control Services  
 561720 Janitorial Services  
 561730 Landscaping Services  
 561740 Carpet & Upholstery Cleaning Services  
 561790 Other Services to Buildings & Dwellings  
 561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)

**Waste Management and Remediation Services**

562000 Waste Management & Remediation Services

**Educational Services**

611000 Educational Services (including schools, colleges, & universities)

**Health Care and Social Assistance****Offices of Physicians and Dentists**

621111 Offices of Physicians (except mental health specialists)  
 621112 Offices of Physicians, Mental Health Specialists  
 621210 Offices of Dentists

**Offices of Other Health Practitioners**

621310 Offices of Chiropractors  
 621320 Offices of Optometrists  
 621330 Offices of Mental Health Practitioners (except Physicians)  
 621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists  
 621391 Offices of Podiatrists  
 621399 Offices of All Other Miscellaneous Health Practitioners

**Outpatient Care Centers**

621410 Family Planning Centers  
 621420 Outpatient Mental Health & Substance Abuse Centers  
 621491 HMO Medical Centers  
 621492 Kidney Dialysis Centers  
 621493 Freestanding Ambulatory Surgical & Emergency Centers  
 621498 All Other Outpatient Care Centers

**Medical and Diagnostic Laboratories**

621510 Medical & Diagnostic Laboratories

**Home Health Care Services**

621610 Home Health Care Services

**Code****Other Ambulatory Health Care Services**

621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)

**Hospitals**

622000 Hospitals

**Nursing and Residential Care Facilities**

623000 Nursing & Residential Care Facilities

**Social Assistance**

624100 Individual & Family Services  
 624200 Community Food & Housing, & Emergency & Other Relief Services  
 624310 Vocational Rehabilitation Services  
 624410 Child Day Care Services

**Arts, Entertainment, and Recreation****Performing Arts, Spectator Sports, and Related Industries**

711100 Performing Arts Companies  
 711210 Spectator Sports (including sports clubs & racetracks)  
 711300 Promoters of Performing Arts, Sports, & Similar Events  
 711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures  
 711510 Independent Artists, Writers, & Performers

**Museums, Historical Sites, and Similar Institutions**

712100 Museums, Historical Sites, & Similar Institutions

**Amusement, Gambling, and Recreation Industries**

713100 Amusement Parks & Arcades  
 713200 Gambling Industries  
 713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)

**Accommodation and Food Services****Accommodation**

721110 Hotels (except Casino Hotels) & Motels  
 721120 Casino Hotels  
 721191 Bed & Breakfast Inns  
 721199 All Other Traveler Accommodation  
 721210 RV (Recreational Vehicle) Parks & Recreational Camps  
 721310 Rooming & Boarding Houses

**Code****Food Services and Drinking Places**

722110 Full-Service Restaurants  
 722210 Limited-Service Eating Places  
 722300 Special Food Services (including food service contractors & caterers)  
 722410 Drinking Places (Alcoholic Beverages)

**Other Services****Repair and Maintenance**

811110 Automotive Mechanical & Electrical Repair & Maintenance  
 811120 Automotive Body, Paint, Interior, & Glass Repair  
 811190 Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)  
 811210 Electronic & Precision Equipment Repair & Maintenance  
 811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance  
 811410 Home & Garden Equipment & Appliance Repair & Maintenance  
 811420 Reupholstery & Furniture Repair  
 811430 Footwear & Leather Goods Repair  
 811490 Other Personal & Household Goods Repair & Maintenance

**Personal and Laundry Services**

812111 Barber Shops  
 812112 Beauty Salons  
 812113 Nail Salons  
 812190 Other Personal Care Services (including diet & weight reducing centers)  
 812210 Funeral Homes & Funeral Services  
 812220 Cemeteries & Crematories  
 812310 Coin-Operated Laundries & Drycleaners  
 812320 Drycleaning & Laundry Services (except Coin-Operated)  
 812330 Linen & Uniform Supply  
 812910 Pet Care (except Veterinary) Services  
 812920 Photofinishing  
 812930 Parking Lots & Garages  
 812990 All Other Personal Services

**Religious, Grantmaking, Civic, Professional, and Similar Organizations**

813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations (including condominium and homeowners associations)



# How To Get California Tax Information

## Where To Get Tax Forms and Publications

**By Internet** – You can view, download, and print California tax forms, instructions, publications, FTB Notices, and Legal Rulings from our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov).

**By phone** – You can order current year California tax forms between 6 a.m. and 8 p.m. Monday through Friday, except holidays.

- Refer to the list in the right column and find the code number for the form you want to order.
- Call (800) 338-0505.
- Select “Business Entity Information.”
- Select “Forms and Publications.”
- Enter the three-digit code shown to the left of the form title when instructed.

Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order.

**In person** – Many libraries and some quick print businesses have forms and schedules for you to photocopy (a nominal fee may apply).

**Note:** Employees at libraries and quick print businesses cannot provide tax information or assistance.

**By mail** – Write to:

TAX FORMS REQUEST UNIT  
FRANCHISE TAX BOARD  
PO BOX 307  
RANCHO CORDOVA CA 95741-0307

## Letters

If you write to us, be sure to include your California corporation number or federal employer identification number, your daytime and evening telephone numbers, and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0540

We will respond to your letter within ten weeks. In some cases, we may need to call you for additional information. Do not attach correspondence to your tax return unless the correspondence relates to an item on the return.

## General Toll-Free Phone Service

Telephone assistance is available year-round from 7 a.m. until 7 p.m. Monday through Friday, except holidays.

From within the United States . . . . . (800) 852-5711  
From outside the United States (not toll-free) . . . . . (916) 845-6500  
For federal tax questions, call the IRS at . . . . . (800) 829-1040

### Assistance for persons with disabilities

We comply with the Americans with Disabilities Act. Persons with hearing or speech impairment, please call:

TTY/TDD . . . . . (800) 822-6268

### Asistencia bilingüe en español:

Asistencia telefónica esta disponible todo el año durante las 7 a.m. y las 7 p.m. lunes a viernes, excepto días festivos.

Dentro de los Estados Unidos, llame al . . . . . (800) 852-5711  
Fuera de los Estados Unidos, llame al  
(cargos aplican) . . . . . (916) 845-6500

Para preguntas sobre impuestos federales,  
llame el IRS al . . . . . (800) 829-1040

## California Tax Forms and Publications

817 California Corporation Tax Forms and Instructions.

This booklet contains:

Form 100, California Corporation Franchise or Income Tax Return;  
Schedule H (100), Dividend Income Deductions  
Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations  
FTB 3539, Automatic Extension for Corps and Exempt Orgs  
FTB 3565, Small Business Stock Questionnaire  
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations  
FTB 3885, Corporation Depreciation and Amortization

816 California S Corporation Tax Forms and Instructions.

This booklet contains:

Form 100S, California S Corporation Franchise or Income Tax Return;  
Schedule B (100S), S Corporation Depreciation and Amortization  
Schedule C (100S), S Corporation Tax Credits  
Schedule D (100S), S Corporation Capital Gains and Losses and Built-In Gains  
Schedule H (100S), Dividend Income Deduction  
Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc.  
Schedule QS, Qualified Subchapter S Subsidiary (QSub) Information Worksheet  
FTB 3539, Automatic Extension for Corps and Exempt Orgs  
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL Disaster Loss — Corporations

814 Form 109 Booklet, California Exempt Organization Business Income Tax Return

818 Form 100-ES, Corporation Estimated Tax

815 Form 199, California Exempt Organization Annual Information Return and Instructions

802 FTB 3500, Exemption Application

803 FTB 3555, Request for Tax Clearance Certificate — Corporations

## Your Rights As A Taxpayer

Our goal at the FTB is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program, and how you can request written advice from the FTB on whether a particular transaction is taxable.

See “Where to Get Tax Forms and Publications” on this page.



# Automated Toll-Free Phone Service

(Keep This Booklet For Future Use)

Use our automated toll-free phone service to get recorded answers to many of your questions about California taxes and to order current year California business entity tax forms and publications. This service is available in English and Spanish to callers with touch-tone telephones. Have paper and pencil ready to take notes.

Call from within the United States . . . . . (800) 338-0505  
Call from outside the United States (not toll-free) . . . . (916) 845-6600

## To Order Forms

See "Where to Get Tax Forms and Publications" on the previous page.

## To Get Information

You can hear recorded answers to Frequently Asked Questions 24 hours a day, 7 days a week. Call our automated phone service at the number listed above. Select "Business Entity Information," then select "Frequently Asked Questions." Enter the 3-digit code, listed below, when prompted.

### Code Filing Assistance

- 715 If my actual tax is less than the minimum franchise tax, what figure do I put on line 24 of Form 100 or Form 100W?
- 717 What are the tax rates for corporations?
- 718 How do I get an extension of time to file?
- 722 When does my corporation have to file a short-period return?
- 734 Is my corporation subject to franchise tax or income tax?

### S Corporations

- 704 Is an S corporation subject to the minimum franchise tax?
- 705 Are S corporations required to make estimated payments?
- 706 What forms do S corporations file?
- 707 The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 22 of Form 100S?

### Exempt Organizations

- 709 How do I get tax-exempt status?
- 710 Does an exempt organization have to file Form 199?
- 736 I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

### Minimum Tax and Estimate Tax

- 712 What is the minimum franchise tax?
- 714 My corporation is not doing business; does it have to pay the minimum franchise tax?

### Billings and Miscellaneous Notices

- 503 How do I file a protest against a Notice of Proposed Assessment?
- 723 I received a bill for \$250. What is this for?

### Tax Clearance

- 724 How do I dissolve my corporation?
- 725 What do I have to do to get a tax clearance?

### Limited Liability Companies (LLC)

- 750 How do I organize or register an LLC?
- 752 What tax forms do I use to file as an LLC?
- 753 When is the annual tax payment due?

### Miscellaneous

- 700 Who do I need to contact to start a business?
- 701 I need a state Employer ID number for my business. Who do I contact?
- 703 How do I incorporate?
- 737 Where do I send my payment?



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